Digging Deeper

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Help to Buy Equity Loan

Residential Analysts Ltd

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Help to Buy: Equity Loan

The House of Commons Committee of Public Accounts report provides a useful summary of the Help to Buy: Equity Loan scheme:

The Ministry of Housing, Communities & Local Government (the Department) introduced the Help to Buy: Equity Loan scheme in April 2013 to address a fall in property sales following the financial crash of 2008 and the consequent tightening of regulations over the availability of high loan-to-value and high loan-to-income mortgages. Originally intended to last three years, in 2015 the Department announced the extension of the scheme to 2021. The scheme has two principal aims: to help prospective homeowners obtain mortgages and buy new-build properties; and, through the increased demand for new-build properties, to increase the rate of house building in England.

Homes England administers the scheme on behalf of the Department. Home buyers receive an equity loan of up to 20% (40% in London since February 2016) of the market value of an eligible new-build property, interest free for five years. The loan must be paid back in full on sale of the property, within 25 years, or in line with the buyer's main mortgage if this is extended beyond 25 years. The scheme enables buyers to purchase a new-build property with a mortgage of 75% (55% in London) of the value of the property. The current [now previous] *scheme, which will run to March 2021, is not means-tested and is open to both first-time buyers and those who have owned a property previously. Buyers can purchase properties valued up to £600,000. A new scheme* [now in place]*, to follow on immediately from the current scheme for two years to March 2023, will be restricted to first-time buyers and will introduce lower regional caps on the maximum property value, while remaining at £600,000 in London.*

Further information is available here:

https://www.helptobuy.gov.uk/equity-loan/equity-loans/

This document provides a summary of the publicly available data on Help to Buy: Equity Loan. Please let us know if we've missed anything.

The data covers England unless stated otherwise. For the purposes of this document Help to Buy refers to just Help to Buy: Equity Loan. We have strived to ensure the accuracy of this analysis but it is always possible for mistakes to appear. We accept no liability for your use of this analysis.

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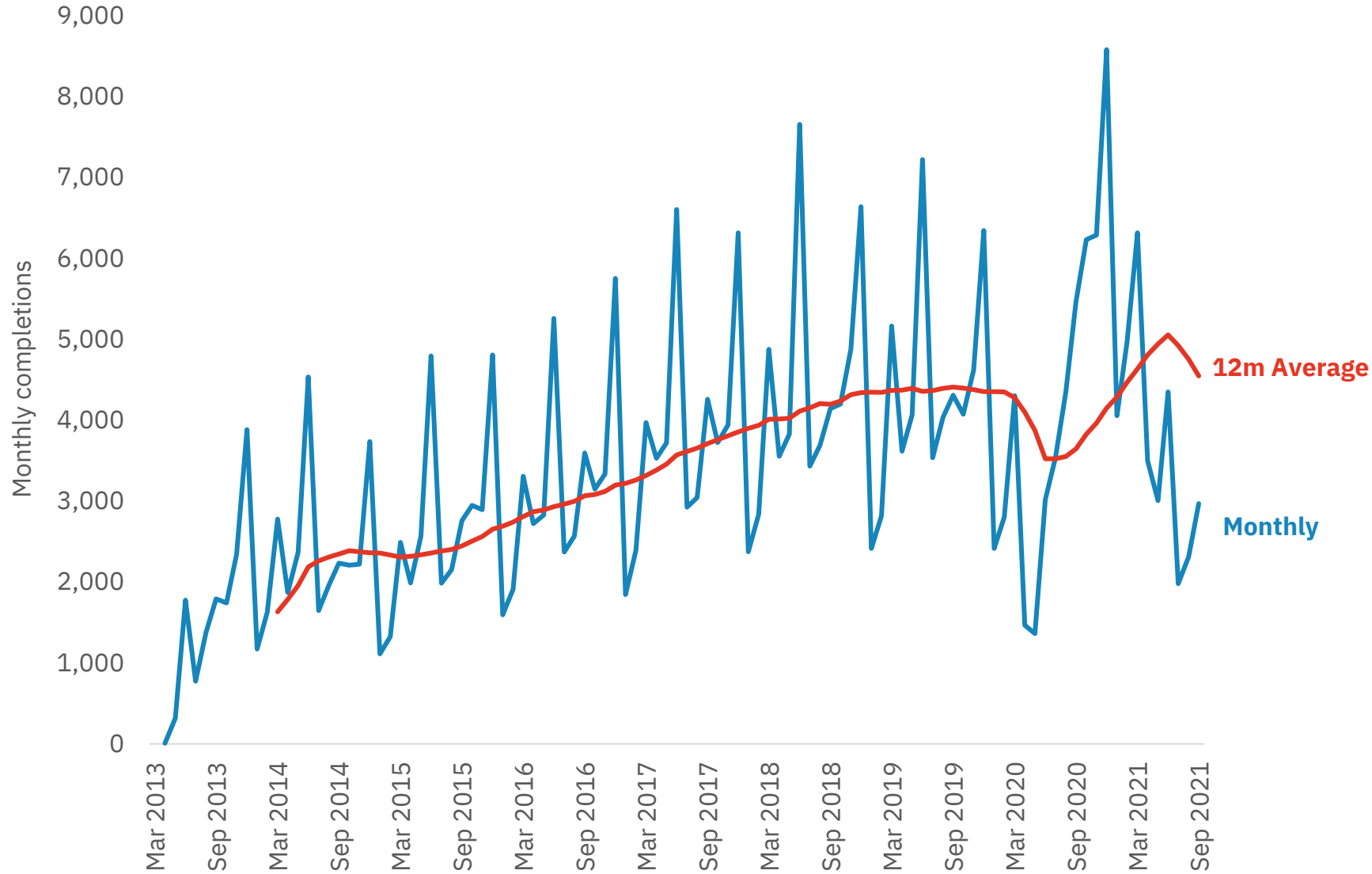
Monthly Completions

Source: DLUHC



The latest available data from DLUHC on Help to Buy Equity Loan covers the period to the end of Q3 2021. Most of the data covered in this analysis is available to download from here.

Help to Buy completions are very seasonal with spikes in months at the end of quarters, particularly June and December.

The level of completions had risen to around 4,350 per month (over 52,000 p.a.) in 2018 and remained around that level until the pandemic hit in March 2020.

When the pandemic hit, completions fell significantly, to just 1,400 per month in April and May 2020.

Completions then recovered quickly following the market reopening, with a record 8,582 completions in December 2020, as developers rushed to complete before the end of the original scheme.

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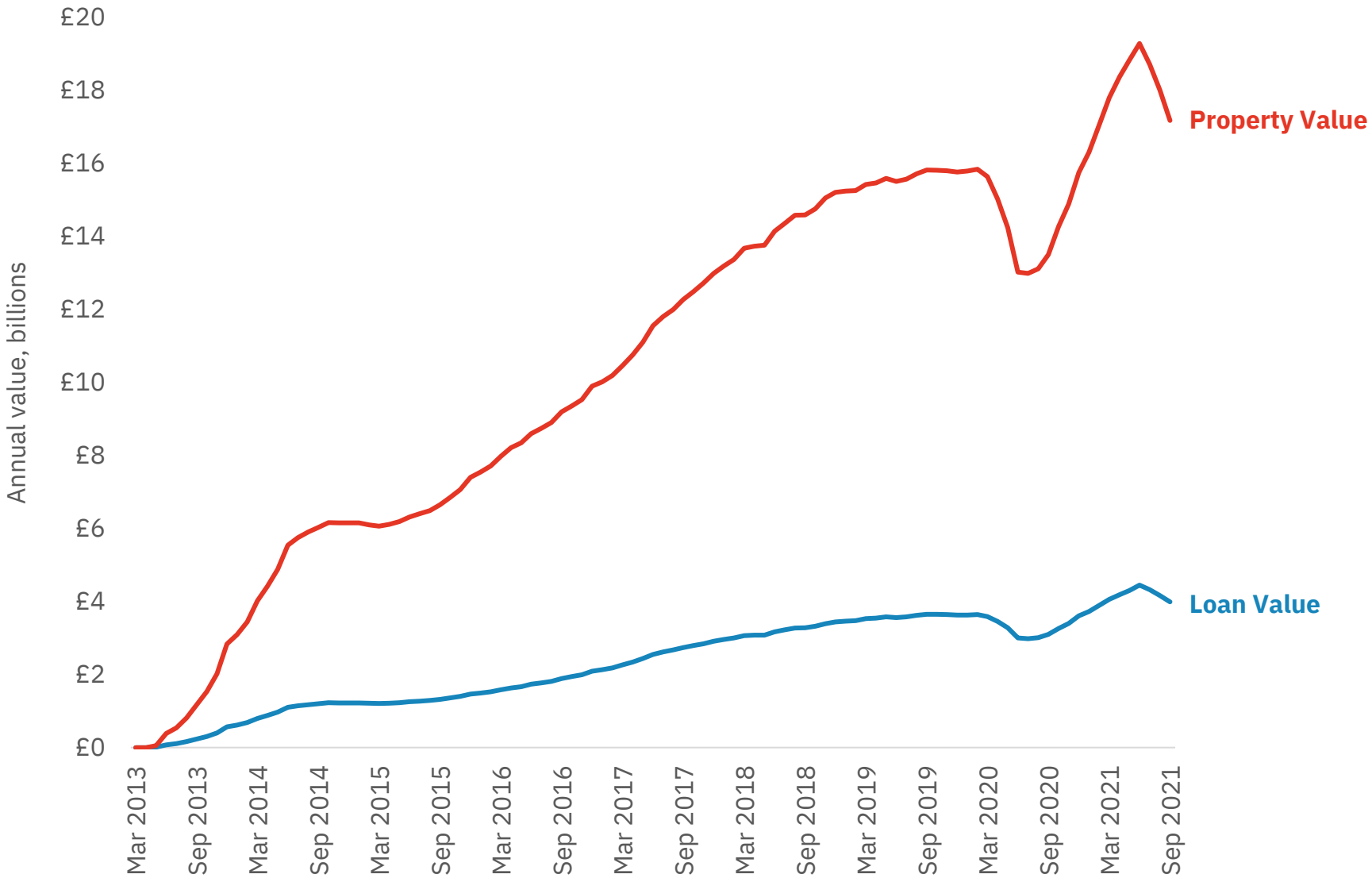
Annual Value of Loans & Properties

Source: DLUHC



The total value of properties bought has risen rapidly as the number of completions rose. The introduction of Help to Buy London and underlying house price inflation have also helped to increase the value of properties bought and equity loans over time.

At the end of September 2021, the scheme had been used to buy nearly £92 billion of homes with £20.3 billion of equity loan.

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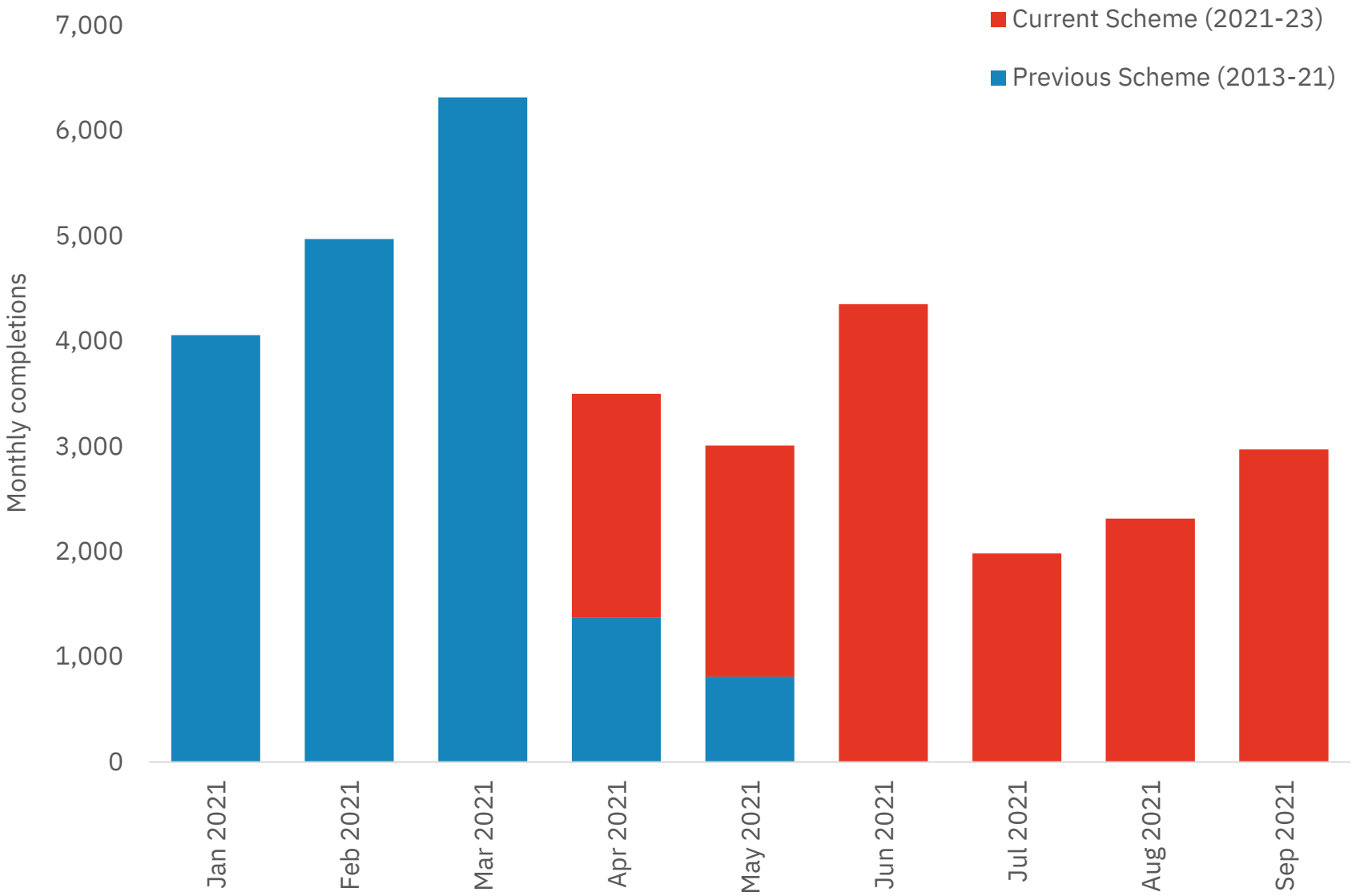
New Scheme: 2021-23

Source: DLUHC



The current scheme of Help to Buy equity loan was introduced on the 1st April 2021.

The scheme has different eligibility criteria to the previous scheme (2013-2021) including a restriction to just first time buyers and regional price caps.

DLUHC note that *"Due to delays caused by the COVID-19 pandemic, the previous scheme ran simultaneously to the new scheme between 1 April and 31 May 2021".*

The latest quarter (Q3 2021) is the first where only the current (2021-23) scheme is in effect.

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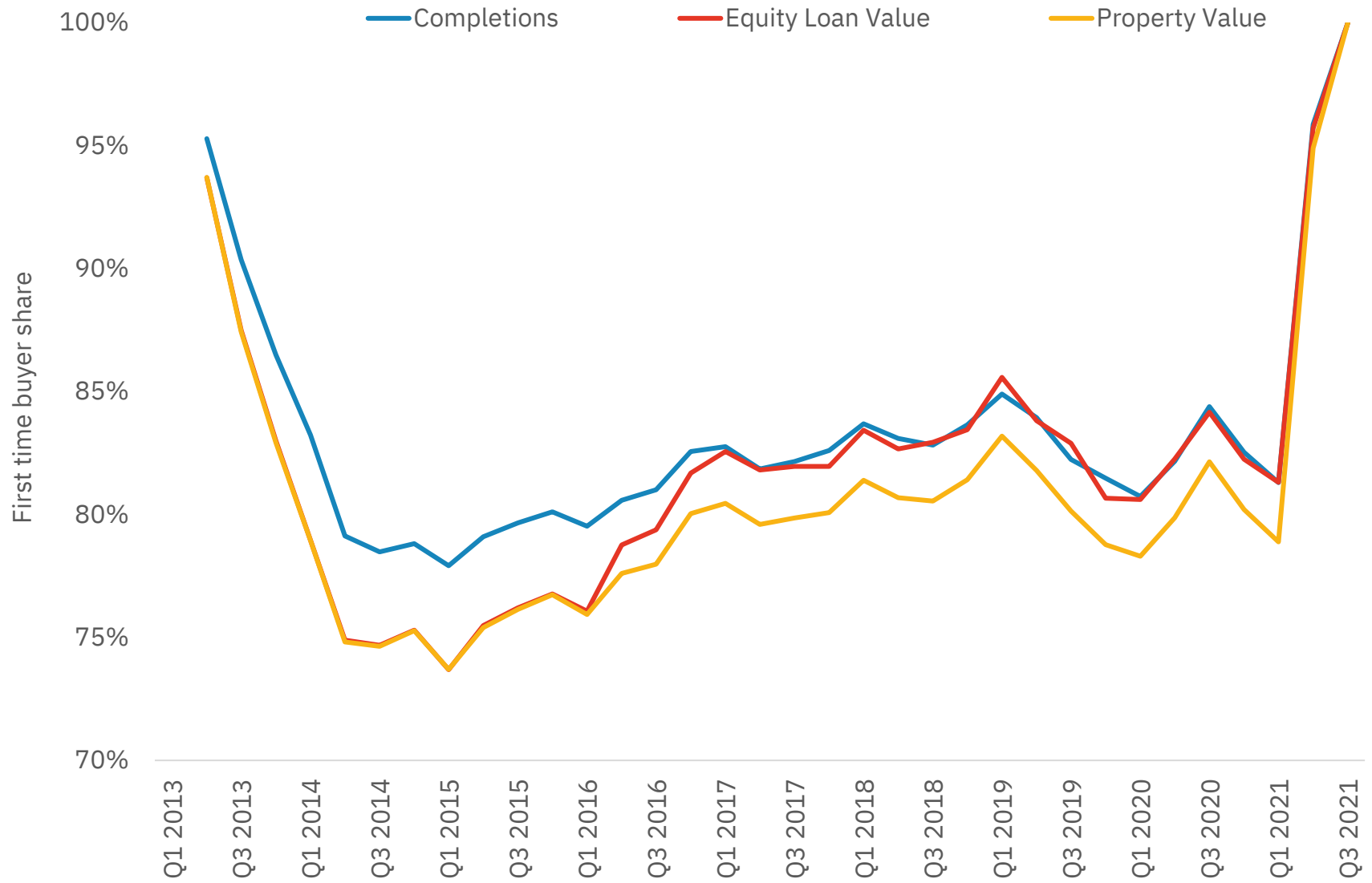
First Time Buyers

Source: DLUHC



The previous Help to Buy scheme (2013-21) was open to first time buyers and home movers but the current scheme (2021-23) is restricted to just first time buyers.

Despite being open to home movers, first time buyers accounted for the majority of activity under the previous scheme with 82% of completions by first time buyers from the start of the scheme up to Q1 2021.

The latest two quarters have seen first time buyers increase in overall share, reaching 100% of activity in Q2 2021 as the previous scheme finally ended and home movers no longer qualified for the scheme.

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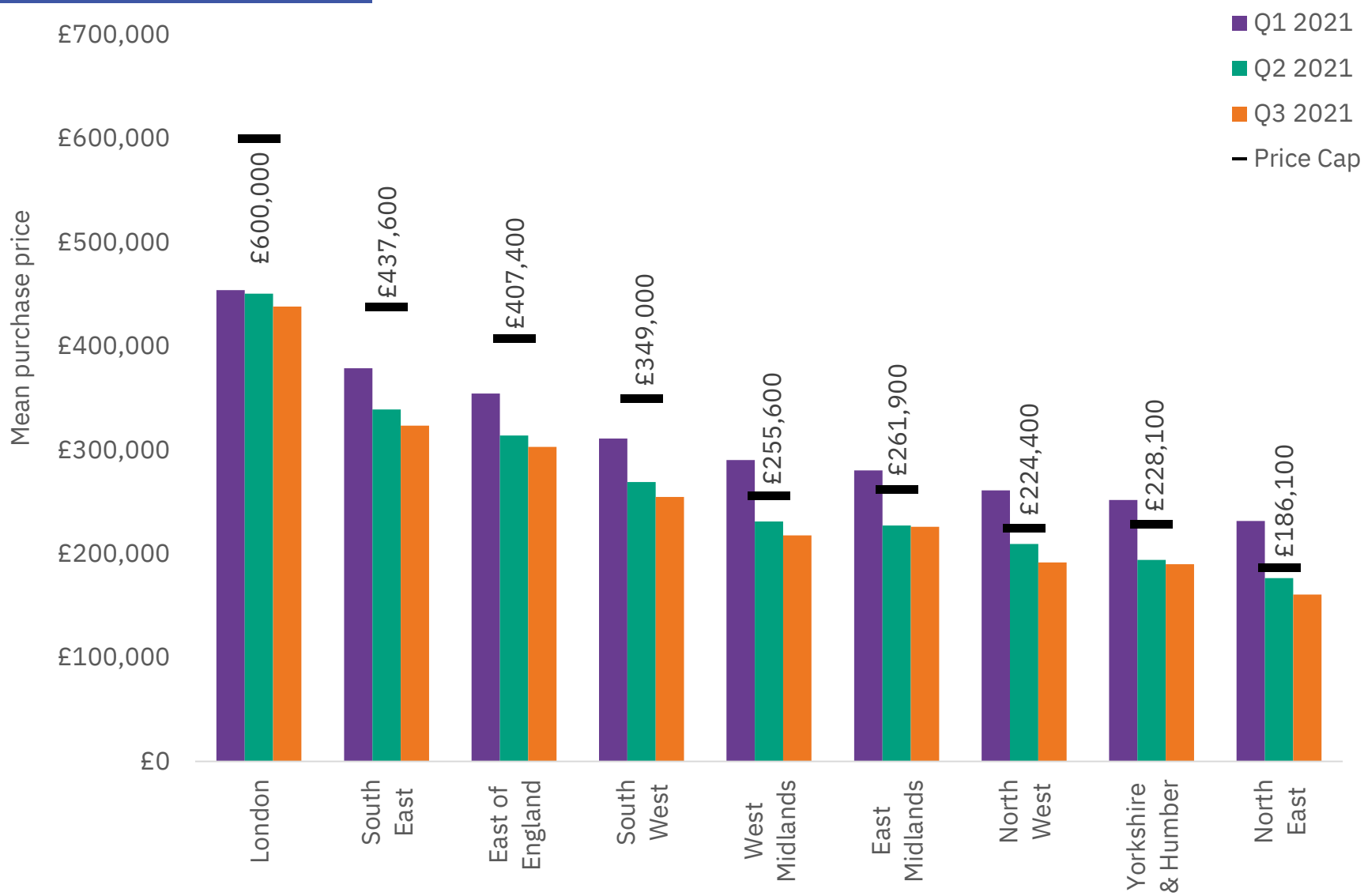
Regional Price Caps

Source: BuiltPlace analysis of DLUHC



The current scheme has also seen the introduction of regional price caps

Average purchase prices have fallen in the latest two quarters following these changes though it is not yet clear from this chart exactly how much of these price falls can be directly attributed to the price caps.

The price caps are clearly more binding in the midlands and north of England, falling below the average purchase price recorded under the previous scheme.

	Price Cap
London	£600,000
South East	£437,600
East of England	£407,400
South West	£349,000
East Midlands	£261,900
West Midlands	£255,600
Yorkshire & Humber	£228,100
North West	£224,400
North East	£186,100

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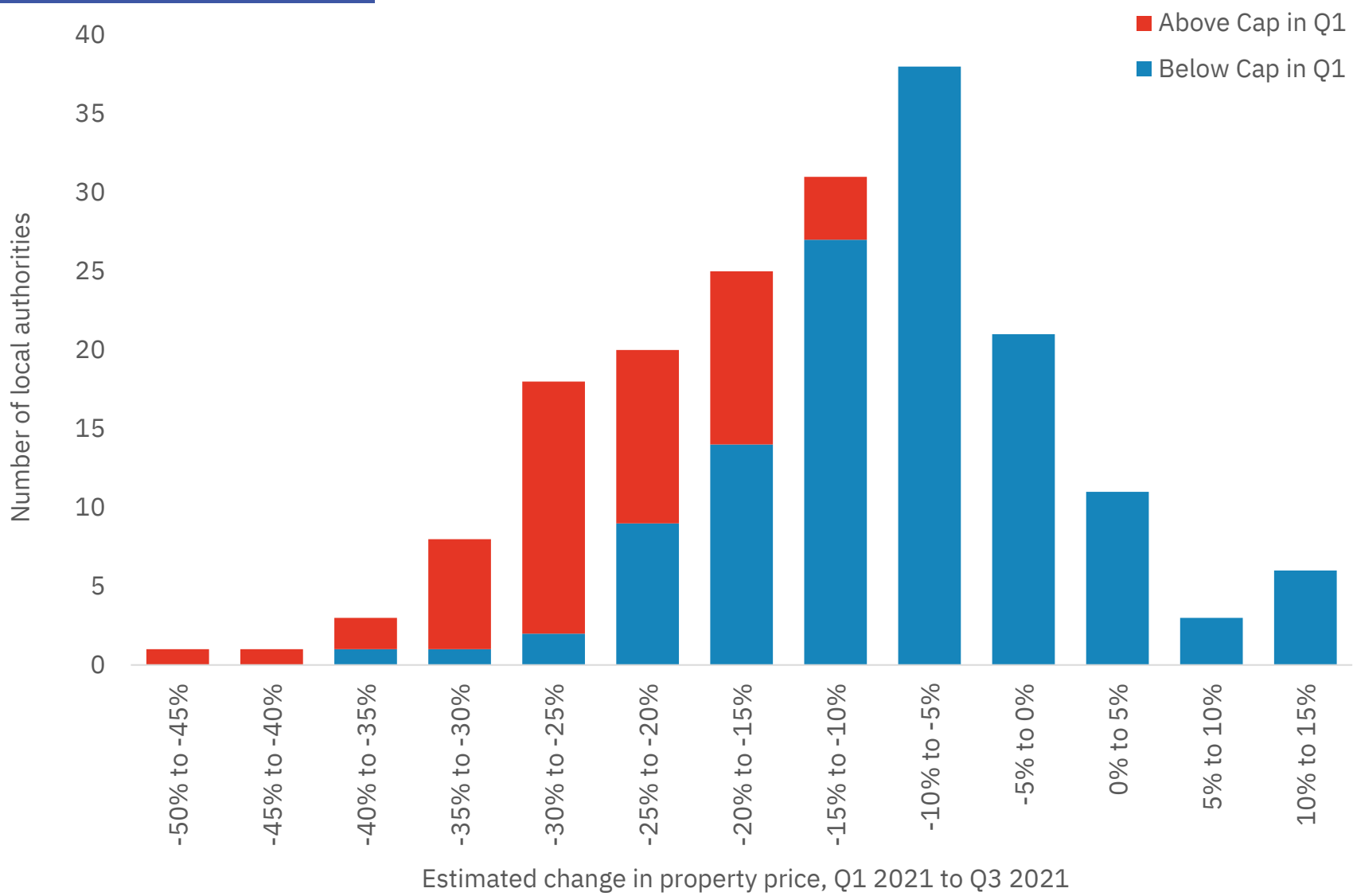
Regional Price Caps 2

Source: BuiltPlace analysis of DLUHC



To assess the possible impact of the regional price caps, we have estimated the change in purchase prices as the Help to Buy scheme changed in 2021.

To estimate the price of properties completed in Q1 2021 and Q3 2021 we have calculated the average equity loan in each quarter and assumed the average equity loan to purchase price ratio was 20%.

We have also excluded London boroughs and local authorities with less than 10 completions in either quarter. This provides us with a sample of 186 local authorities.

The chart opposite shows the estimated price change from Q1 2021 (2013-21 scheme) to Q3 2021 (2021-23 scheme) and splits the local authorities between those with average prices in Q1 above the regional caps and those with prices below.

The chart clearly shows those areas above the regional price caps have seen bigger price falls but it is possible that changes in the mix of properties sold in areas below the price caps may also have contributed to lower average prices.

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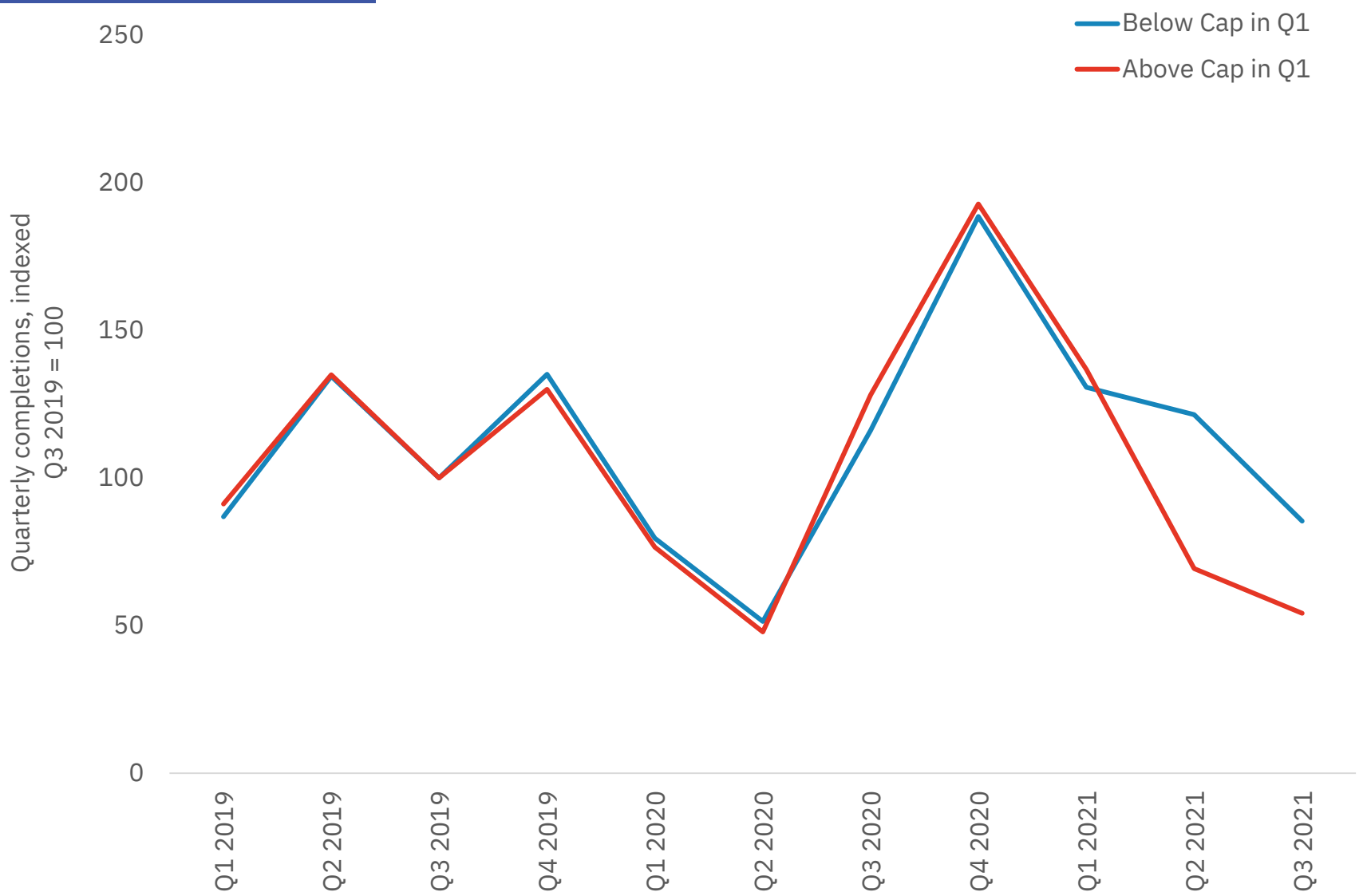
Regional Price Caps 3

Source: BuiltPlace analysis of DLUHC



This slide continues our analysis of areas with prices above and below their respective regional price caps in Q1 2021 by looking at completion levels. It is based on a larger sample than the previous slide but still excludes London.

As the chart shows, the trend in completions in the years leading up to Q1 2021 was similar irrespective of the price cap – as you'd expect given the caps were not in place.

However, since the introduction of the price caps, areas with prices above the caps in Q1 2021 have seen a larger fall in completions that those with prices below the regional price caps.

Completions in Q3 2021 vs. Q3 2019

Areas Below Price Cap in Q1:	-15%
Areas Above Price Cap in Q1:	-46%

The introduction of price caps has clearly had a negative impact of the delivery of homes through Help to Buy, at least in the short term.

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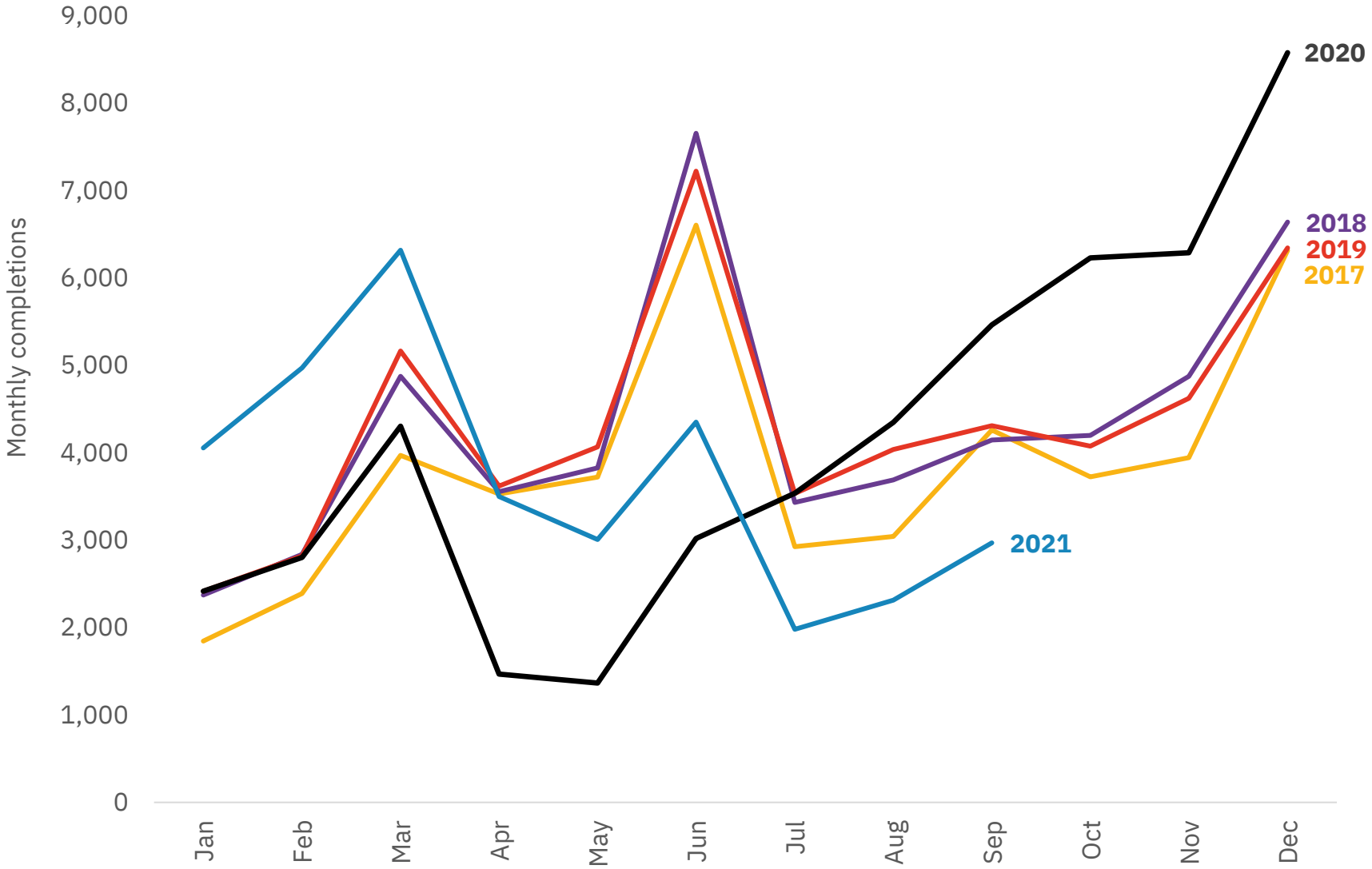
The Impact of the Pandemic

Source: DLUHC



Completions in the early months of 2020 had been tracking previous years though it appears the lockdown prevented some homes from completing in March.

The trajectory then followed the wider housing market collapse and recovery, with higher than normal levels of completions from August onwards.

Despite the higher levels of completions during the second half of 2020, the total number of completions during the 2020 calendar year was 5% lower than 2019.

Completions in 2021 have been at lower than normal levels since the shift to the new scheme in April. Completions in Q3 2021 were 39% lower than the same quarter in 2019. This is a bigger fall than might be expected given the disappearance of home movers who previously accounted for around 20% of completions.

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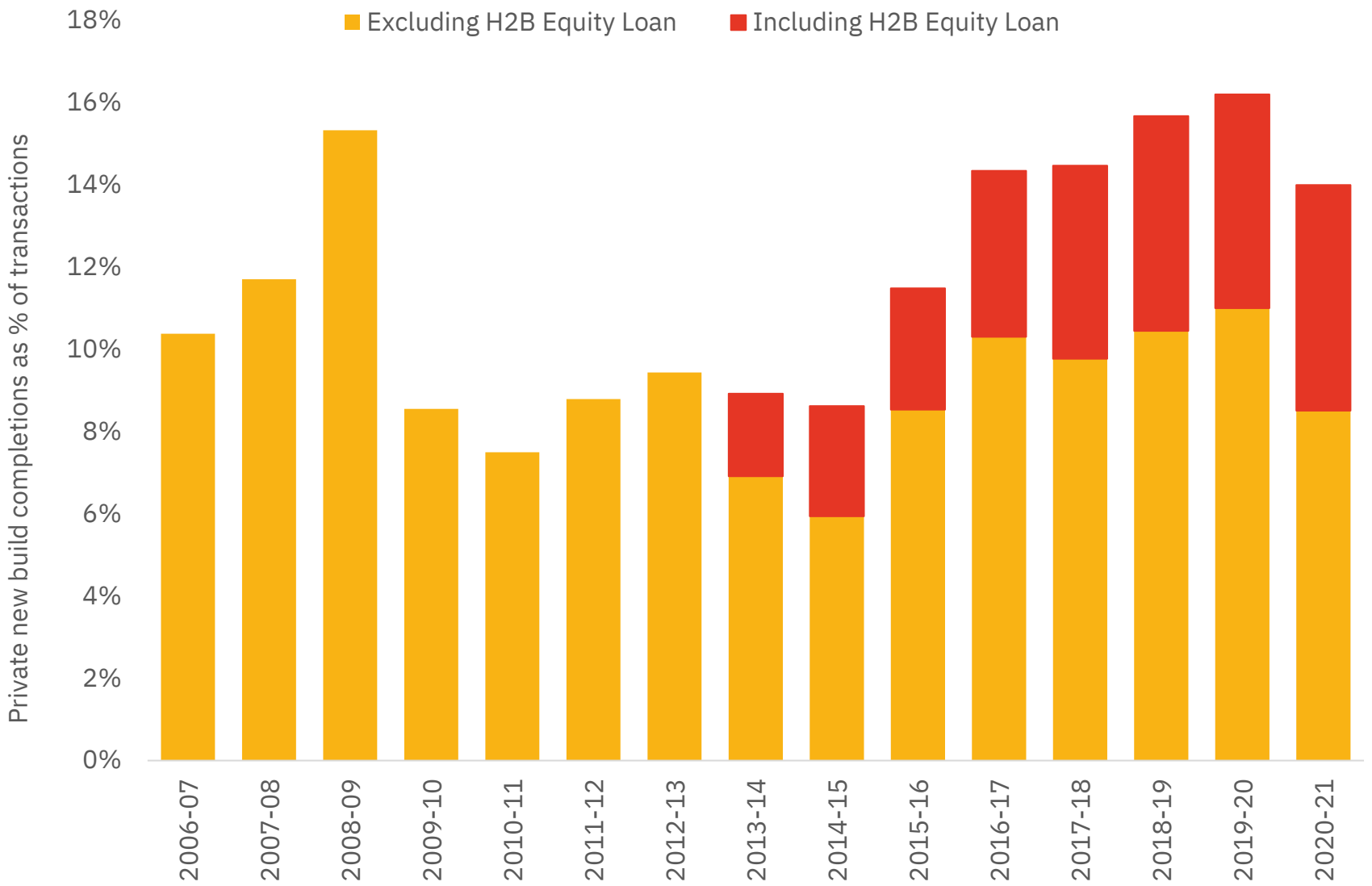
The Future of Help to Buy - Post 2023

Source: DLUHC, HMRC



The debate about how many additional new homes Help to Buy has helped to deliver is best left to academics. Therefore, we will just point out the relationship in the chart opposite.

For some reason, the number of private new build completions (total new build less affordable tenures) has historically tended to track at around 10% of total market transactions.

This ten to one relationship has broken down since the introduction of Help to Buy, increasing to around 15%. However, the underlying number of new build private completions excluding Help to Buy has continued to track around the 10% of transactions line.

This result raises the prospect that all new homes delivered via Help to Buy are additional and the end of the scheme in 2023 could lead to a large collapse in new housing delivery in the absence of an appropriate replacement.

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Further Analysis

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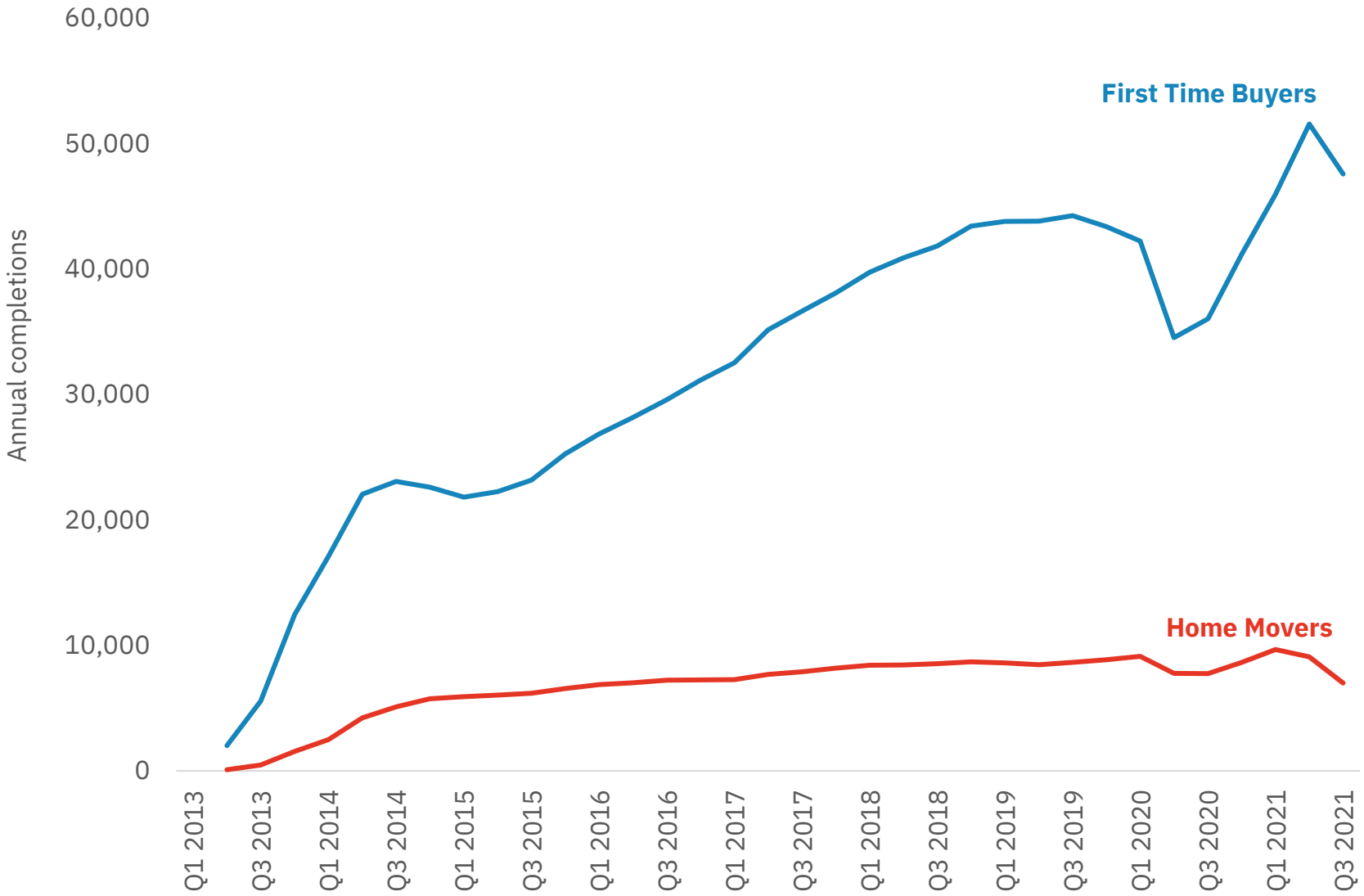
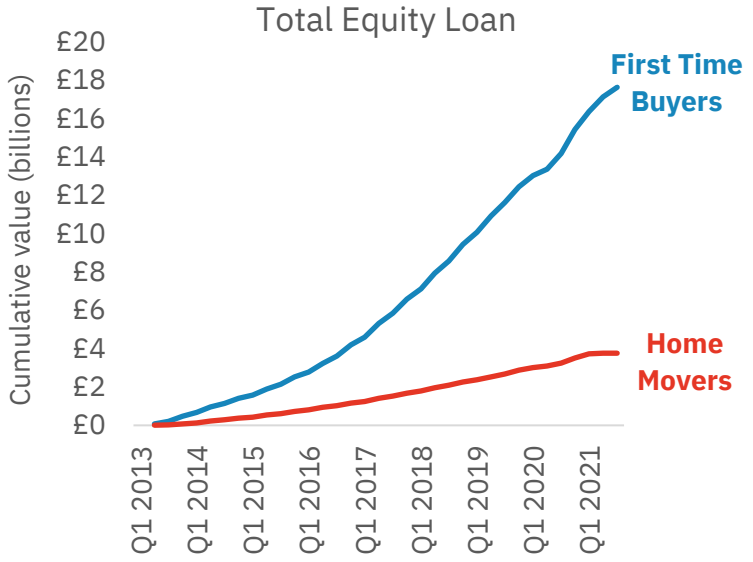
Annual Completions by Buyer Type

Source: DLUHC



The previous Help to Buy scheme was open to all home buyers with both first time buyers and home movers qualifying. However, most completions in the scheme (82%) were by first time buyers and they also accounted for 82% of the total equity loan value.

The scheme is now limited to just first time buyers and Q3 2021 was the first quarter to register no completions by home movers.



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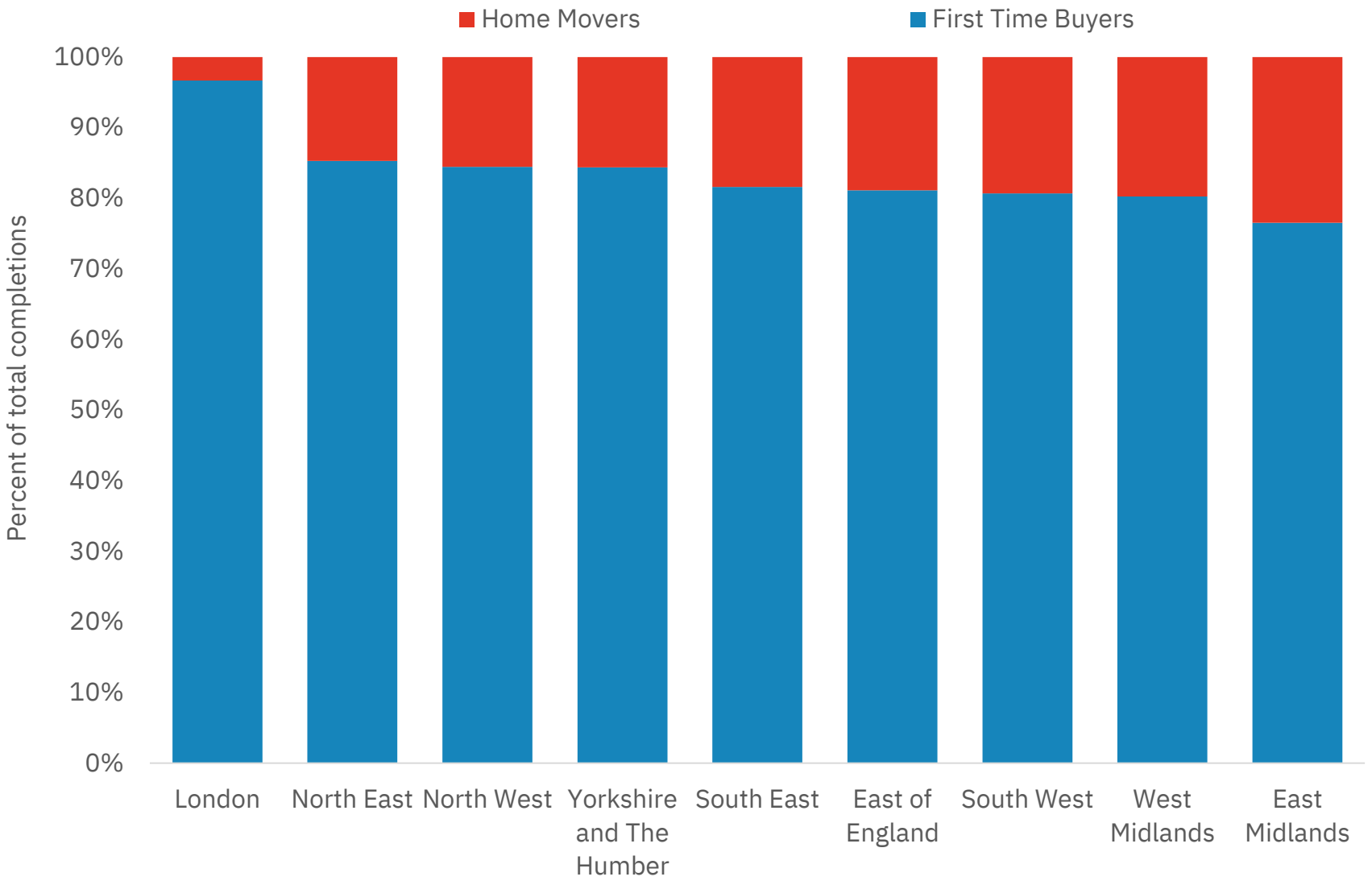
Buyer Type by Region

Source: DLUHC



The chart opposite shows the proportion of buyer types by region since the original scheme started in 2013.

London has had the highest proportion of first time buyers (97%) while the East Midlands has had the highest proportion of home movers (23%).

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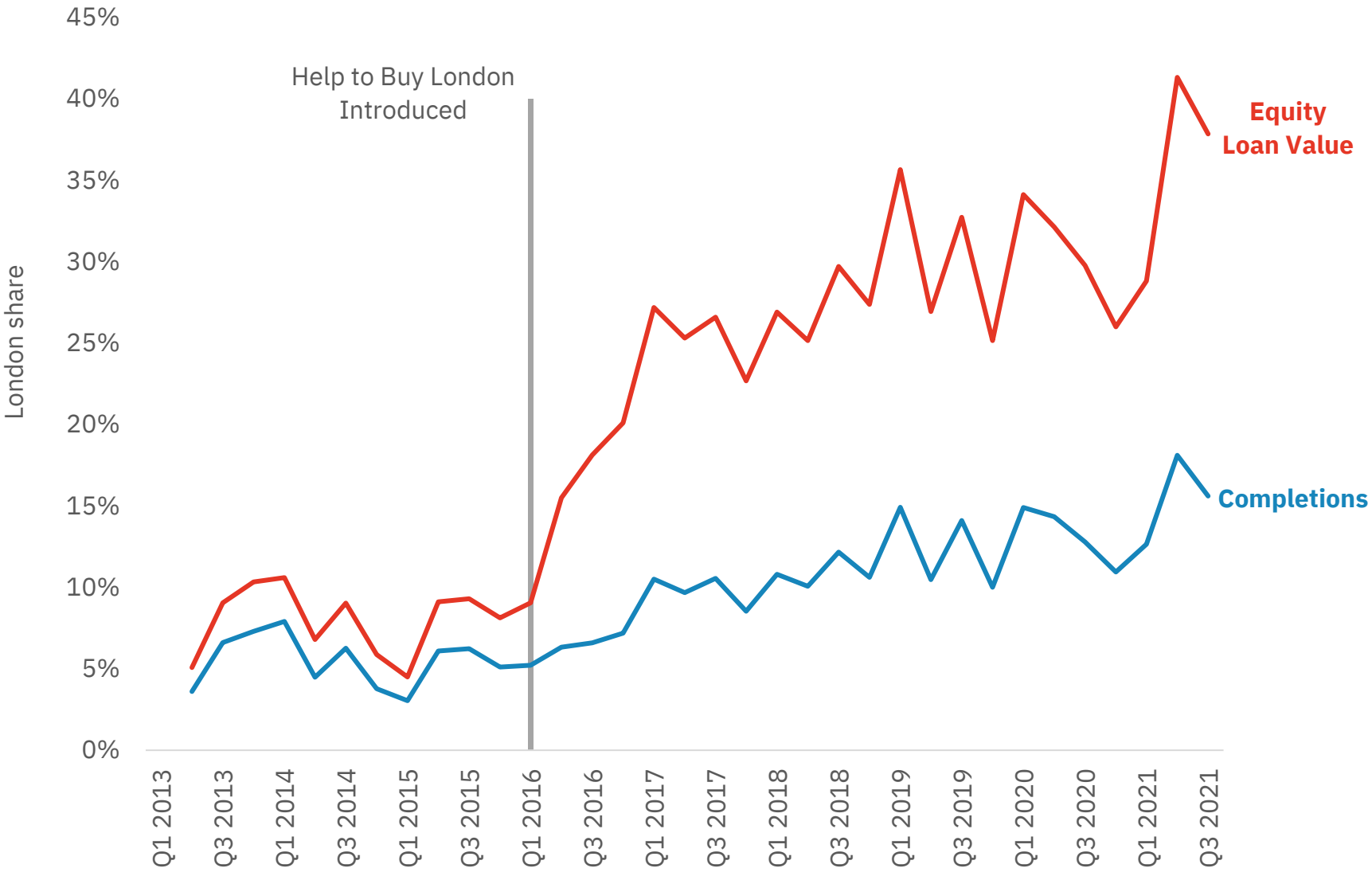
Help to Buy London

Source: DLUHC



Help to Buy London was introduced in February 2016. It allows buyers to take out an equity loan of up to 40% (20% elsewhere).

The impact of the change is clear with the percentage share of completions in London averaging 5% up to Q1 2016 and rising to an average of 12% since Q1 2017.

The rise in London's share of equity loan value is even greater, reflecting both the larger percentage share and higher house prices. It averaged 8% share up to Q1 2016 and has risen to an average of 29% since Q1 2017.

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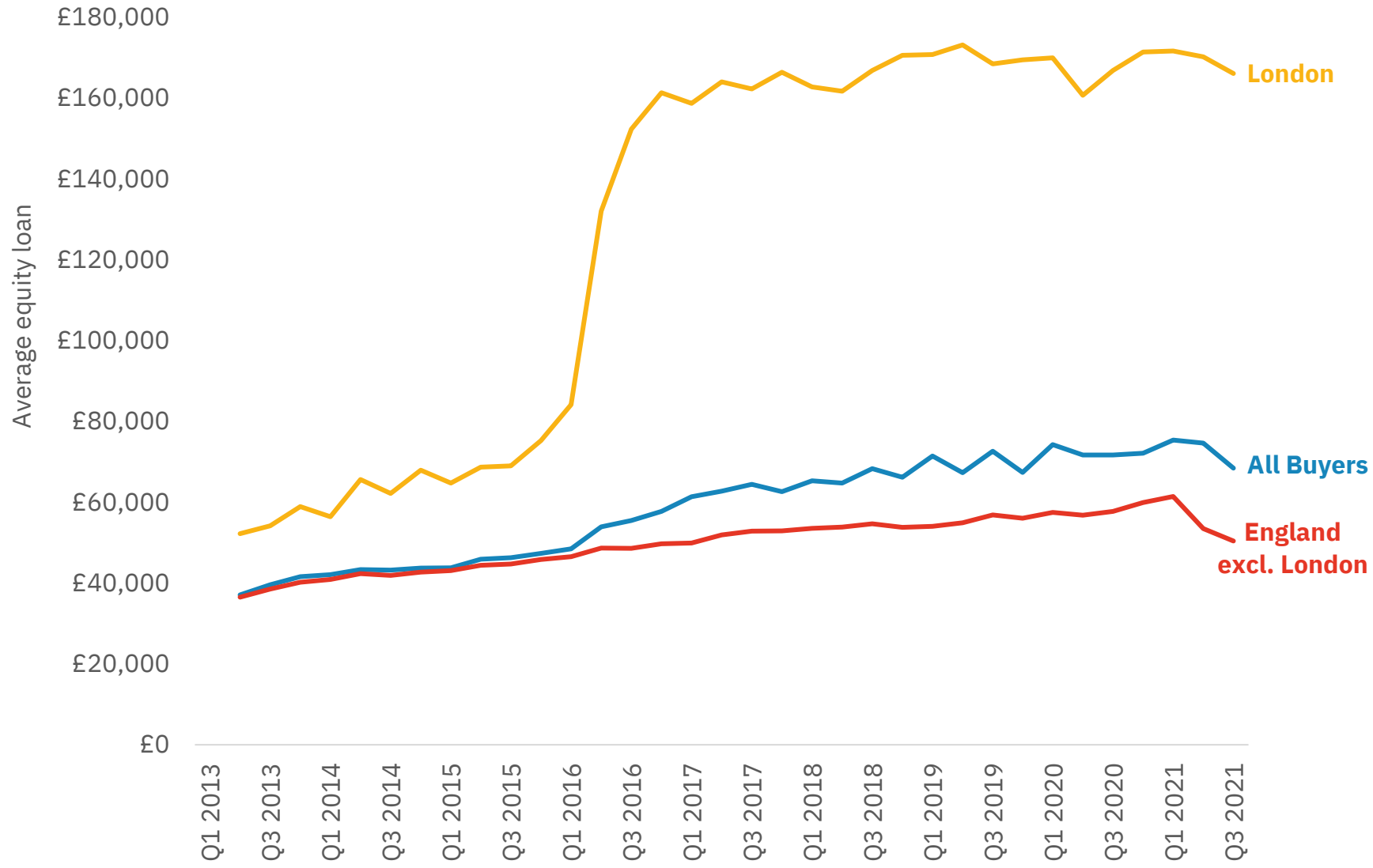
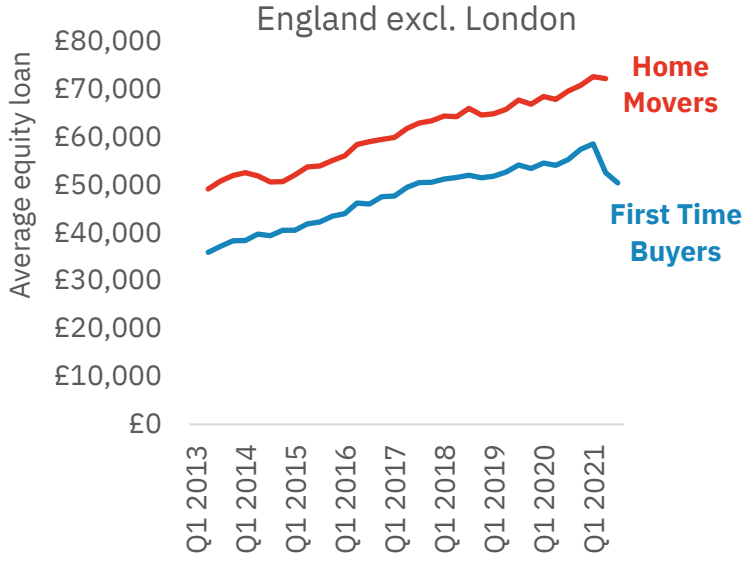
Average Equity Loan

Source: DLUHC



The chart opposite shows the mean equity loan with the introduction of Help to Buy London immediately apparent. The mean equity loan has fallen since the start of the current Help to Buy scheme, alongside the falls in average purchase price.

The chart below shows the average equity loan across England but excluding London. Please note that data for home movers is not available in Q3 2021 as they are no longer covered by the scheme.



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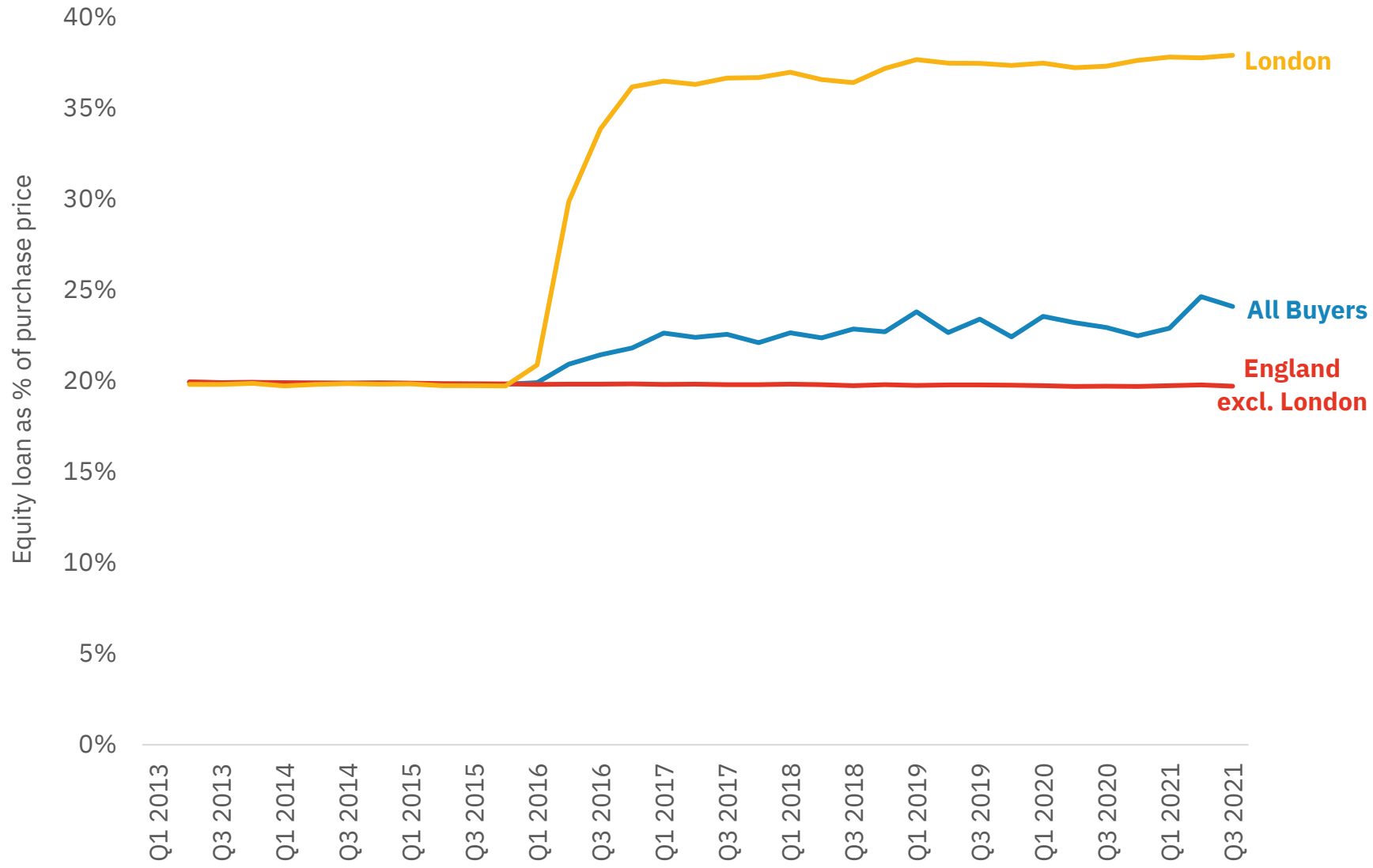
Equity Loan As % Of Purchase Price

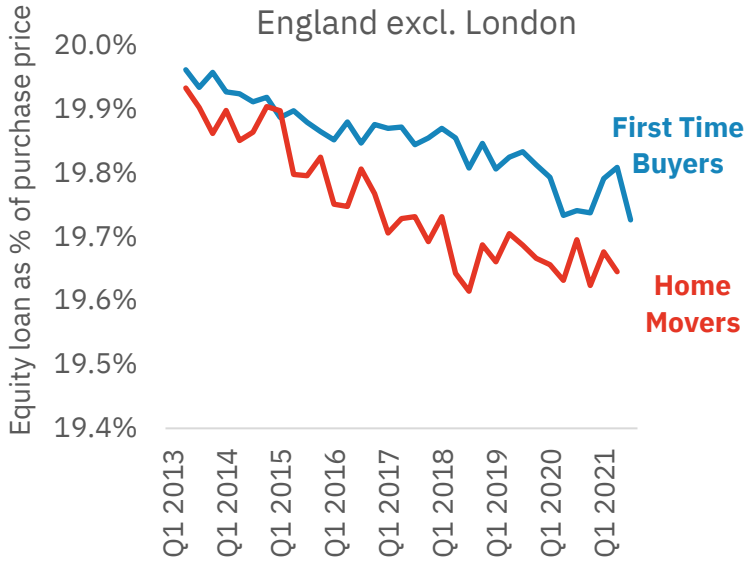
Source: DLUHC



These charts are based on the same data as the charts on the previous slide but are express as a percentage of the purchase price.

As expected, the lines closely match but don't quite reach the maximum equity loan percentage available. Q3 2021:

London:	37.9%
Rest of England:	19.7%



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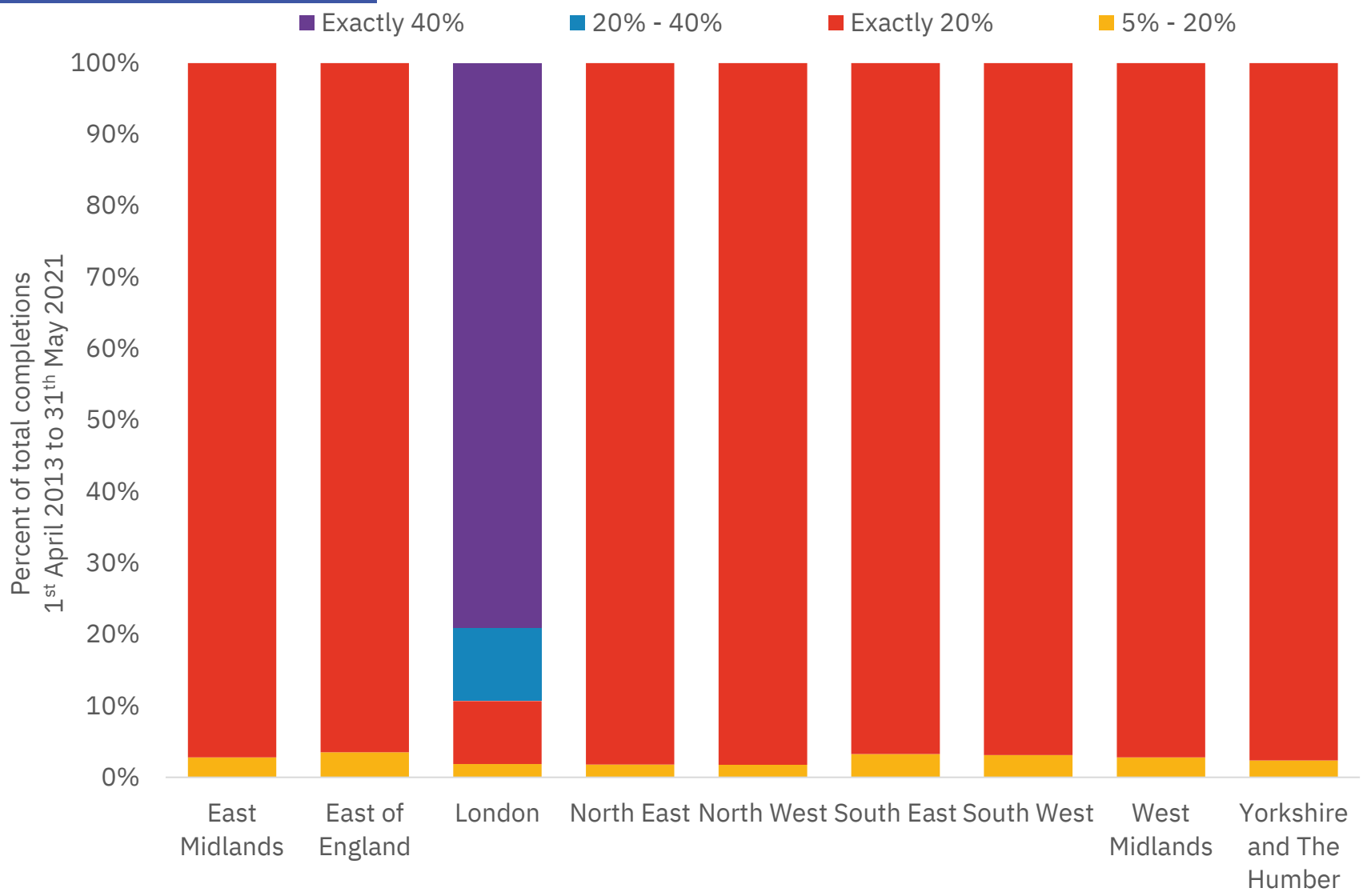
Equity Loan As % of Purchase Price

Source: DLUHC



As suggested by the previous slide, the majority of buyers take out the maximum equity loan.

97% of purchasers across England (excluding London) had an equity loan of exactly 20% of the purchase price.

The maximum equity loan is 40% in London and 79% of purchasers have had an equity loan equal to 40% of their purchase price.

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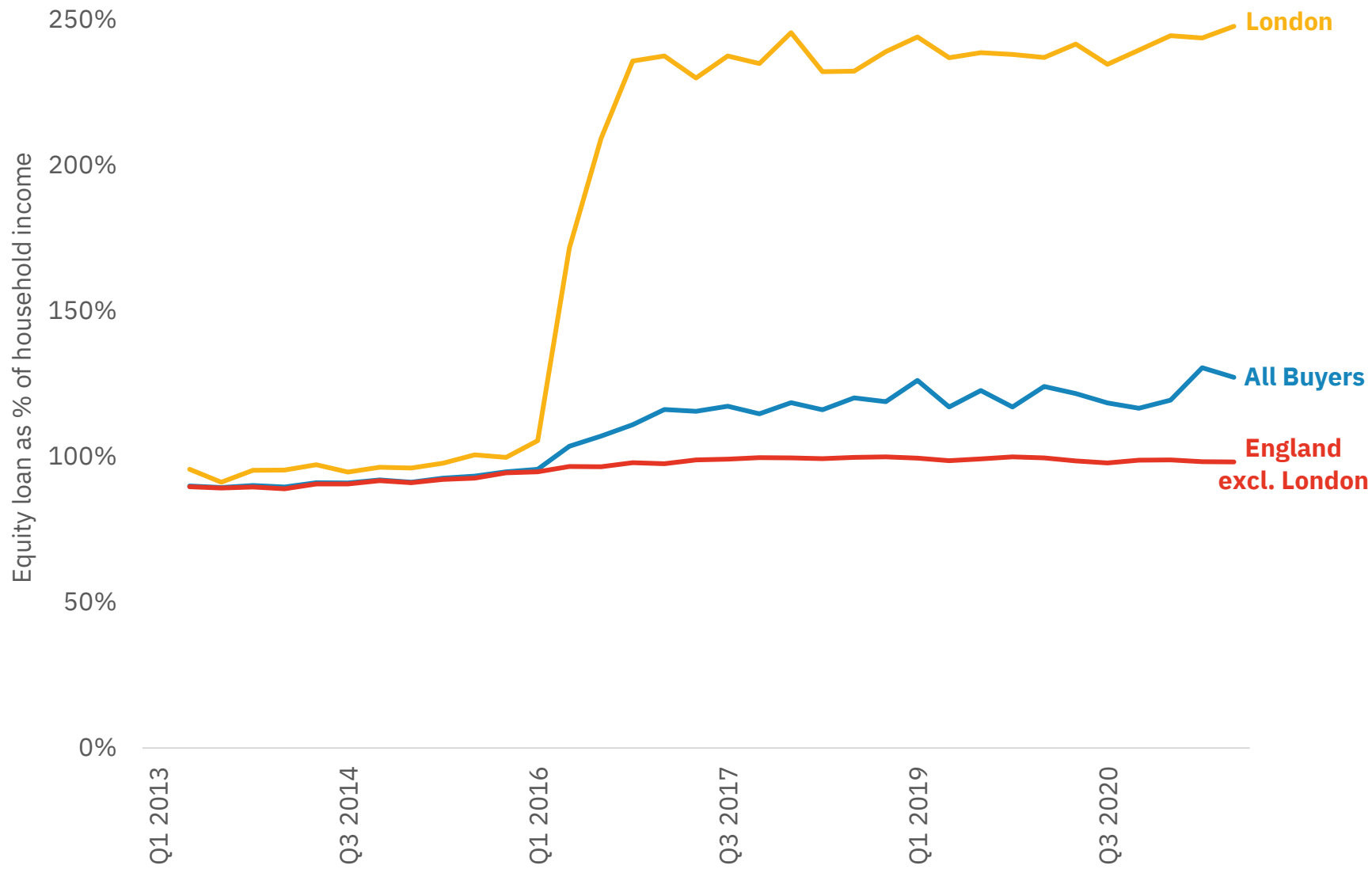
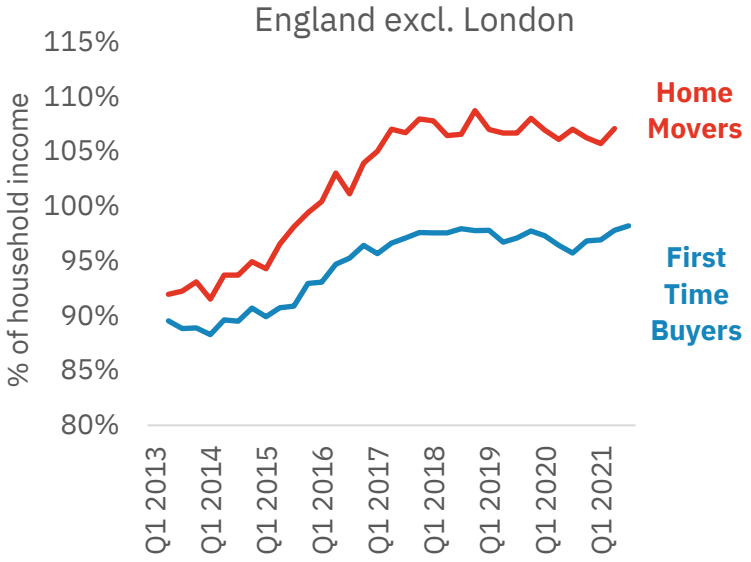
Equity Loan As % Of Household Income

Source: DLUHC



The final version of these charts shows the mean equity loan as a percentage of mean borrowers' income.

The typical Help to Buy London purchaser takes out an equity loan equivalent to nearly 250% of their income while across the rest of England it is around 100% of income.



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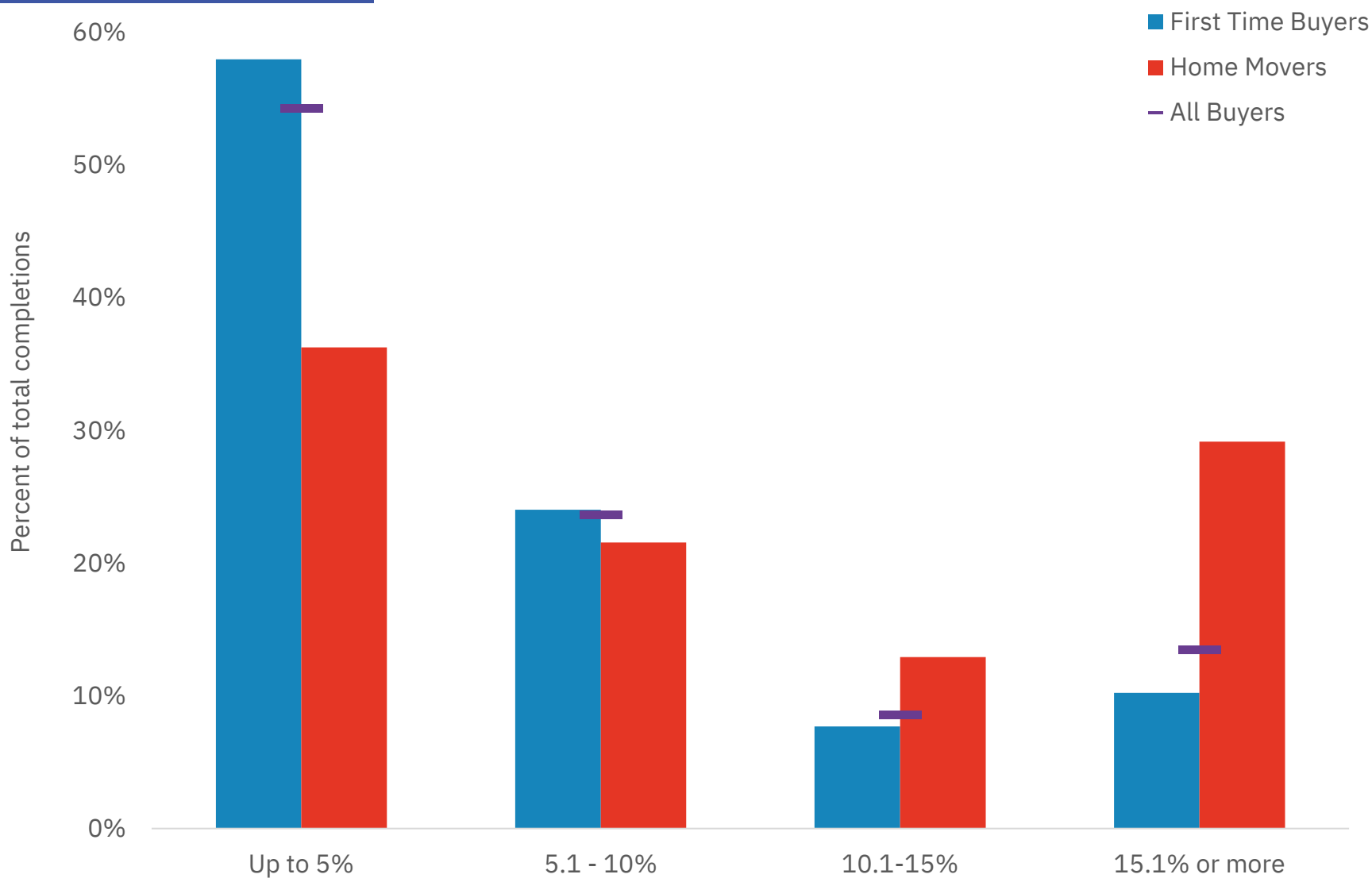
Deposit as % of Purchase Price Distribution

Source: DLUHC



The chart opposite shows the distribution in the deposit provided by the purchaser as a percentage of the purchase price.

Since the introduction of the scheme, most first time buyers have provided a deposit of up to 5% (54%) but 13% had a deposit of over 15% of the property price.

Home movers have typically provided a larger deposit with nearly 30% providing a deposit of over 15% since the beginning of the scheme.

The proportion of buyers with just a 5% deposit has increased in the last two quarters as the new scheme limited to just first time buyers has taken hold.

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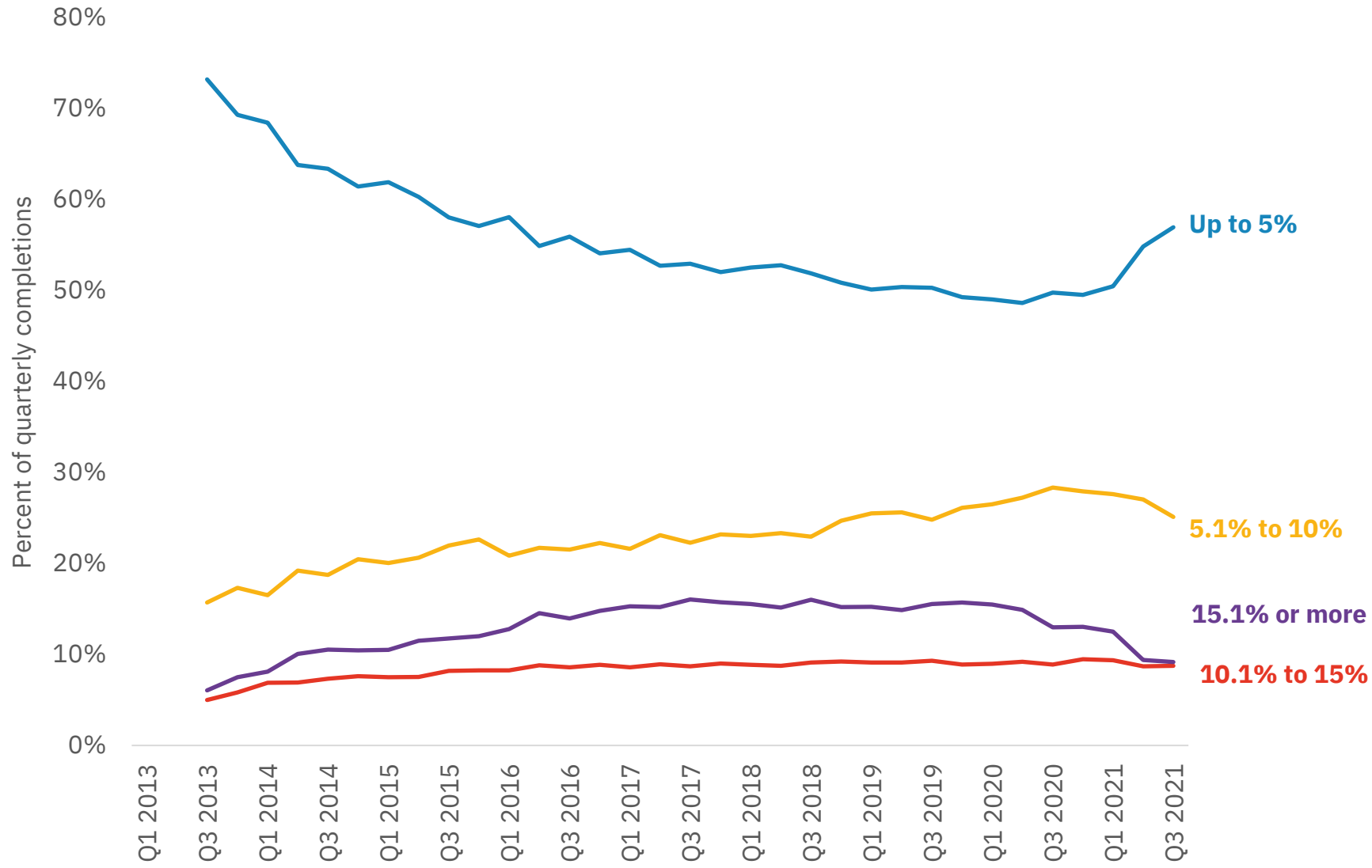
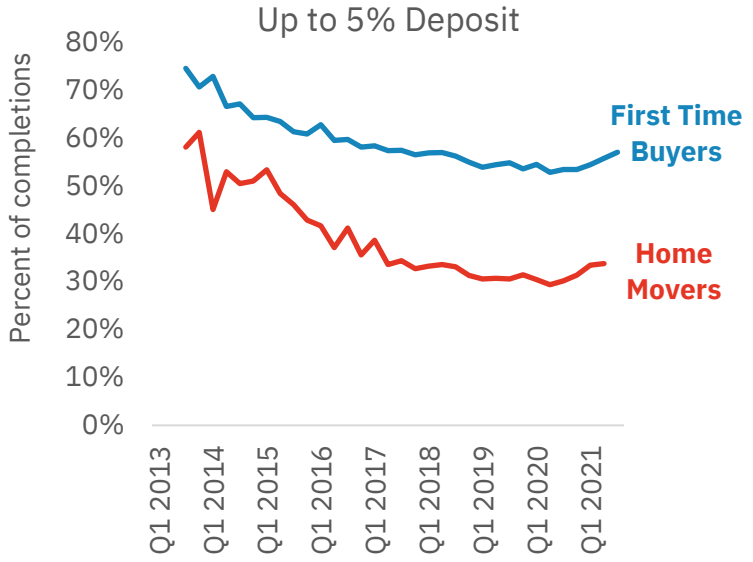
Deposit Distribution Over Time

Source: DLUHC



The chart opposite shows the change in the deposit distribution over time for all buyers and highlights the uptick in those having up to 5% in recent quarters.

This chart and the others like it are based on cumulative data as published at that point in time. Therefore there will be some revisions to previous data that are included in a later quarter. This issue should not have a significant impact on the overall trends.



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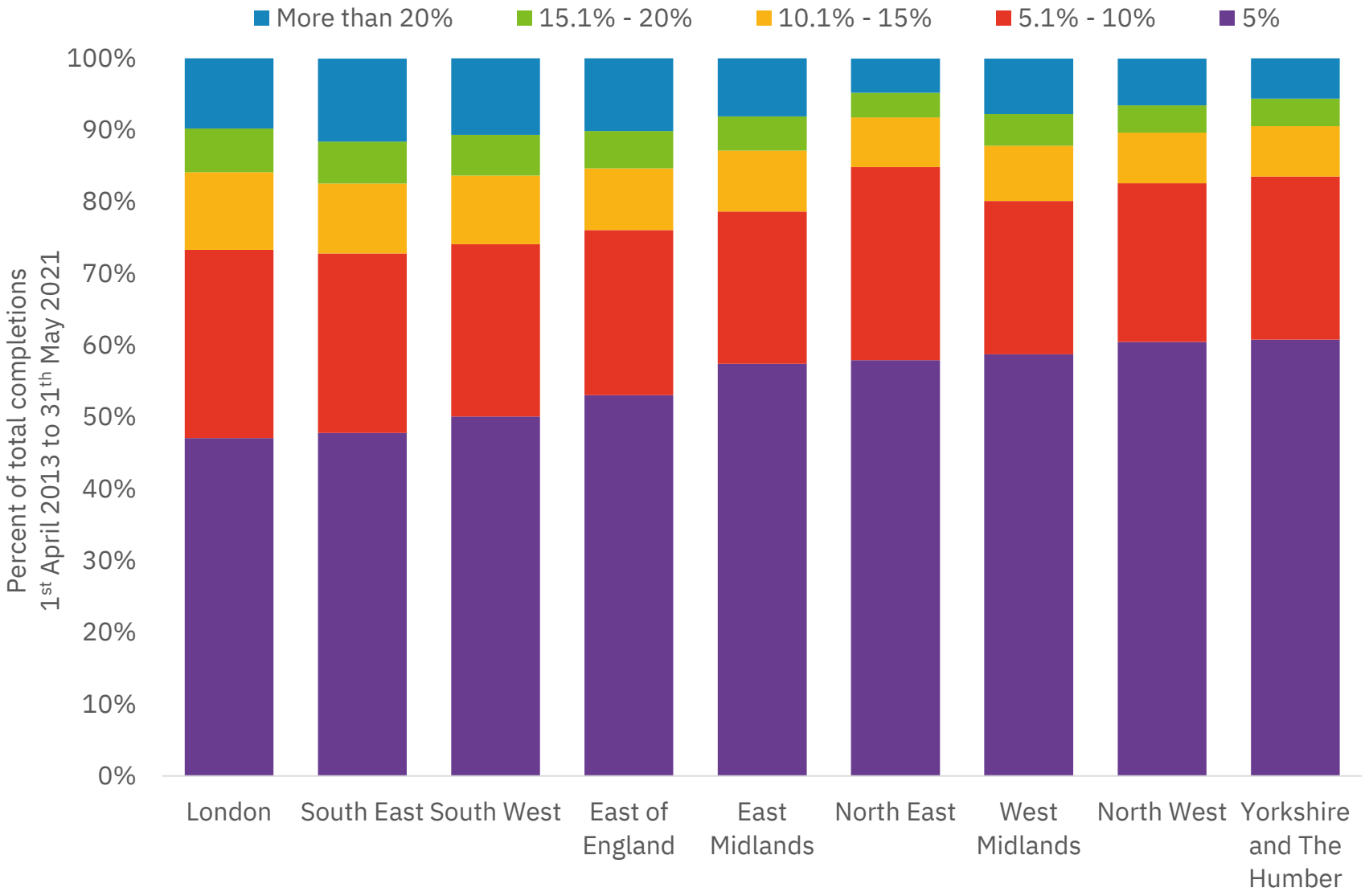
Deposit as % of Purchase Price by Region

Source: DLUHC



This chart shows the distribution in deposits by region since the start of Help to Buy in 2013 until the end of May 2021.

Yorkshire & Humber has the highest proportion of buyers with just a 5% deposit at 61% while London has the lowest at 47%.

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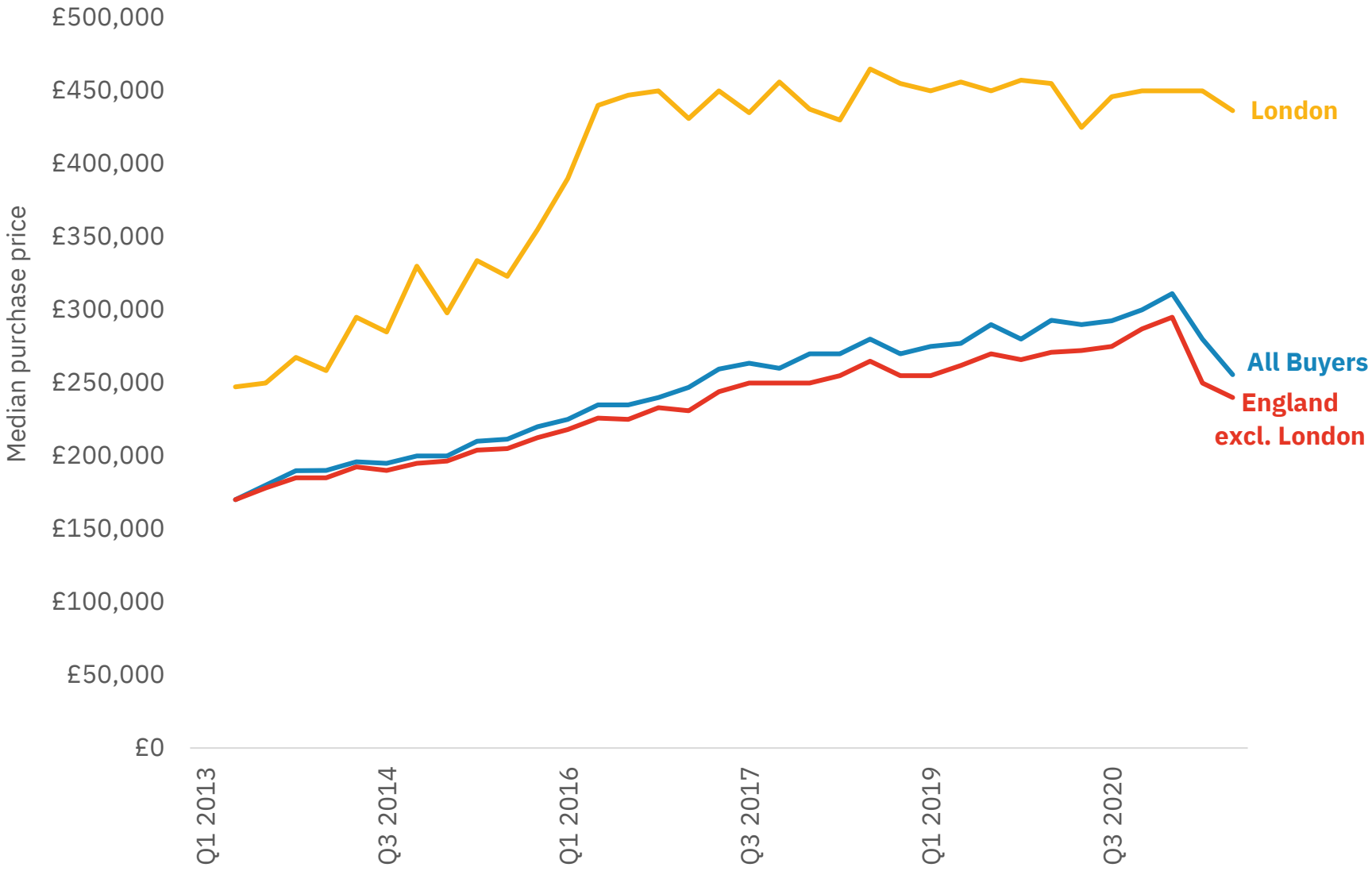
Median Purchase Price

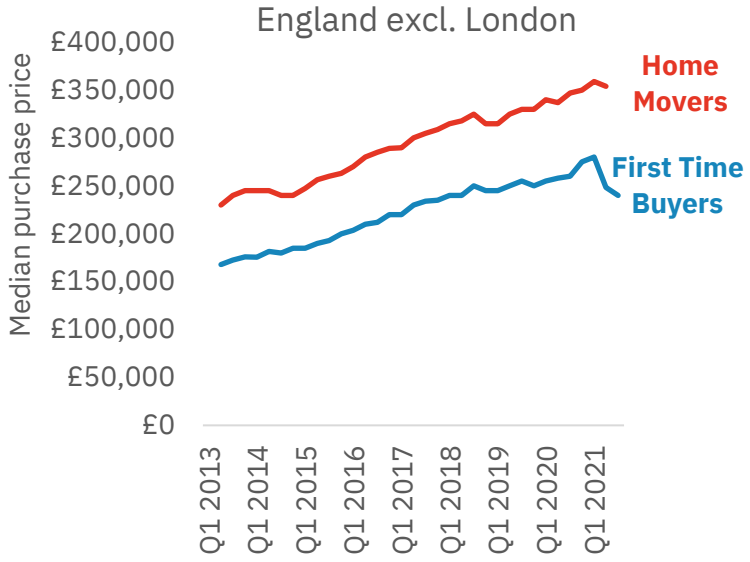
Source: DLUHC



These charts show the median price of home bought in different locations (opposite) and by different buyers (below).

The introduction of Help to Buy London is again apparent in the London data opposite.

The fall in the average purchase price since the end of the previous scheme is also clear.



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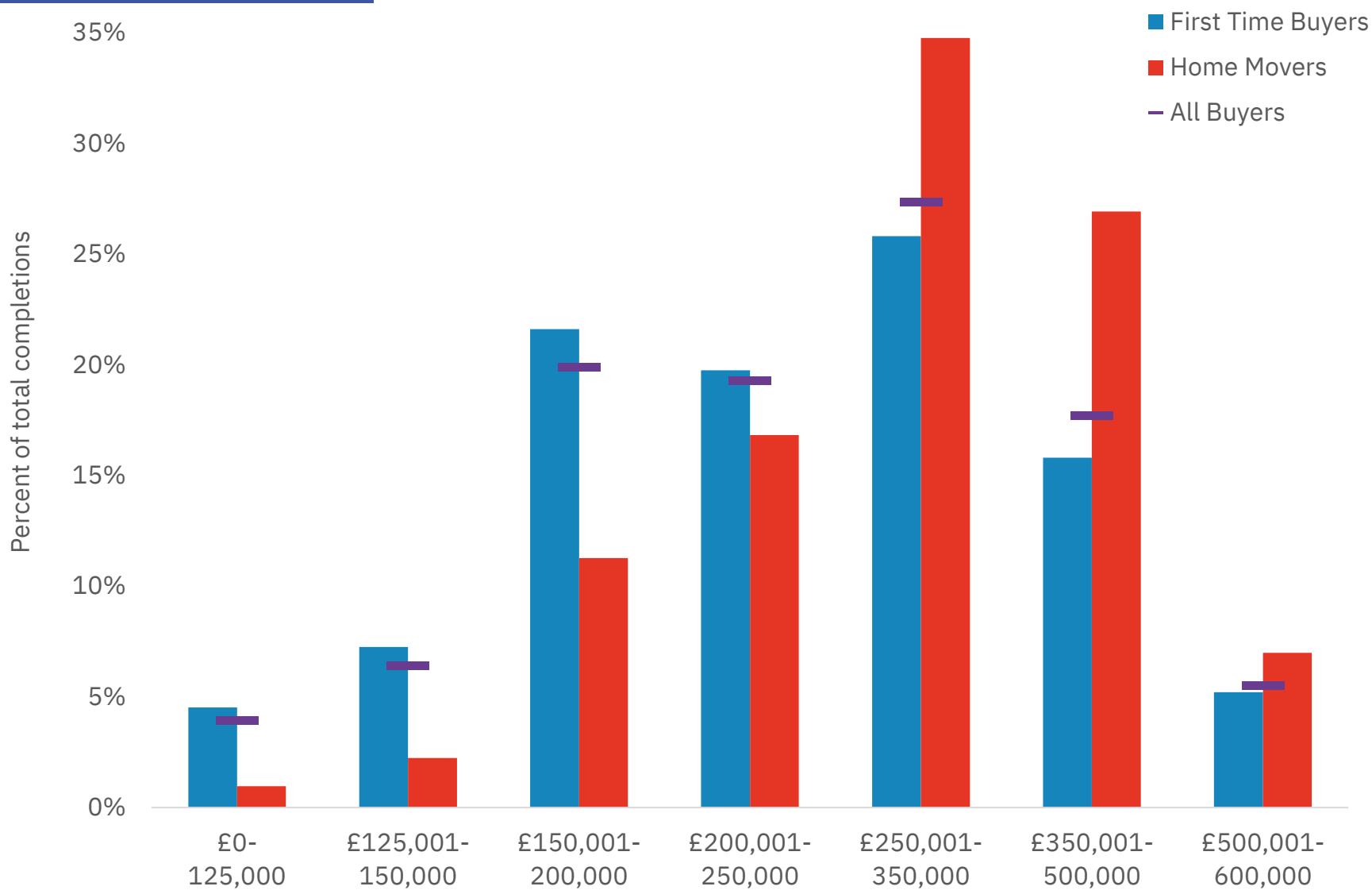
Purchase Price Distribution

Source: DLUHC



This chart shows the distribution of property prices bought using Help to Buy since the scheme was introduced in 2013.

Unsurprisingly, the chart shows the distribution of prices bought by home movers is higher than those bought by first time buyers.

Since the scheme started 79% of first time buyers have bought a home priced £350,000 or less while 66% of home movers bought a home for that price or less.

5% of all buyers since the scheme started have bought a home for over £500,000.

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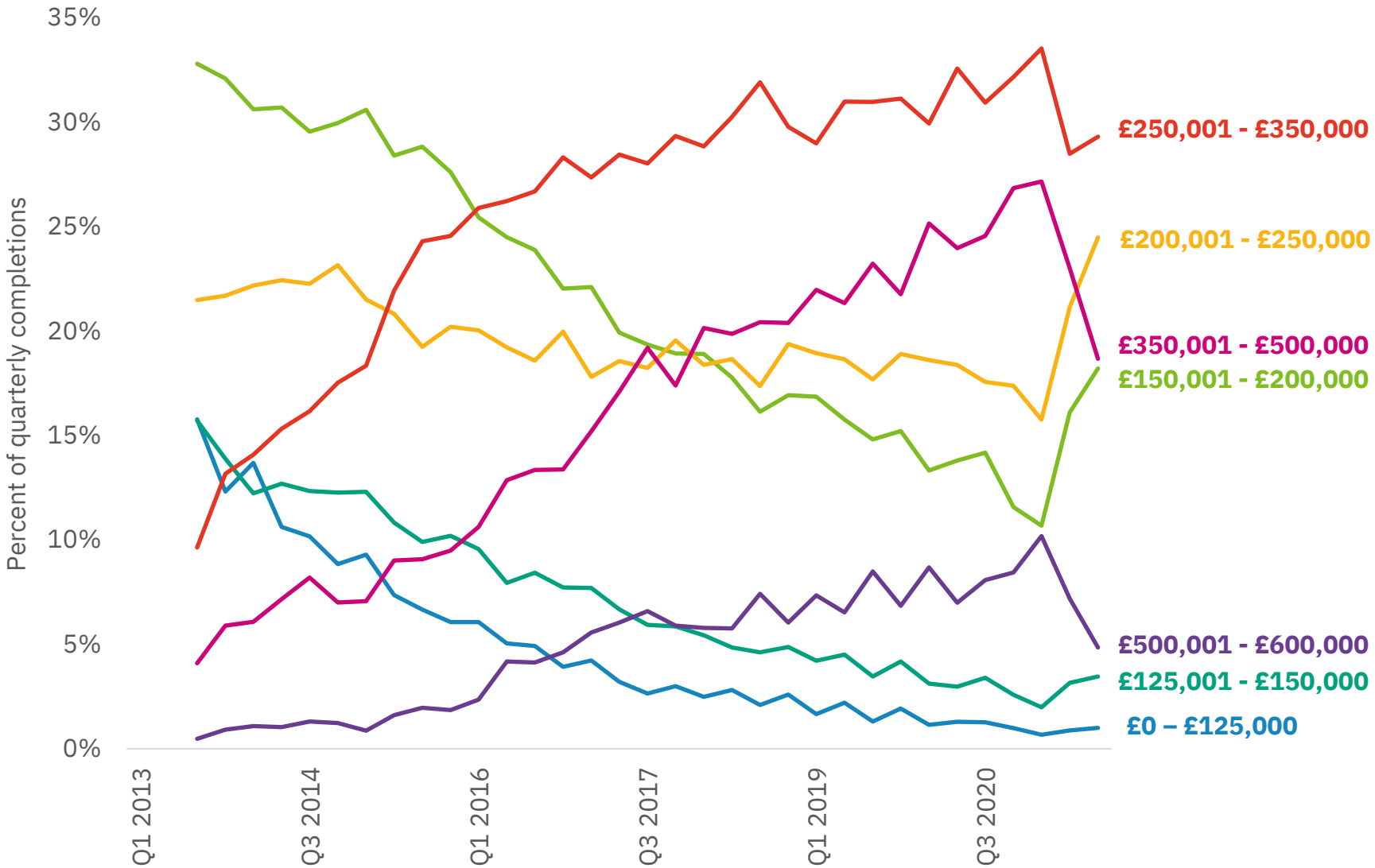
Purchase Price Distribution Over Time

Source: DLUHC



The chart opposite shows the distribution in purchase price over time. It does not account for inflation.

There is a noticeable decline in the proportion of sales in higher price bands (over £350,000) since the start of the current scheme (2021-23) which has seen the introduction of regional price caps and limits to just first time buyers.

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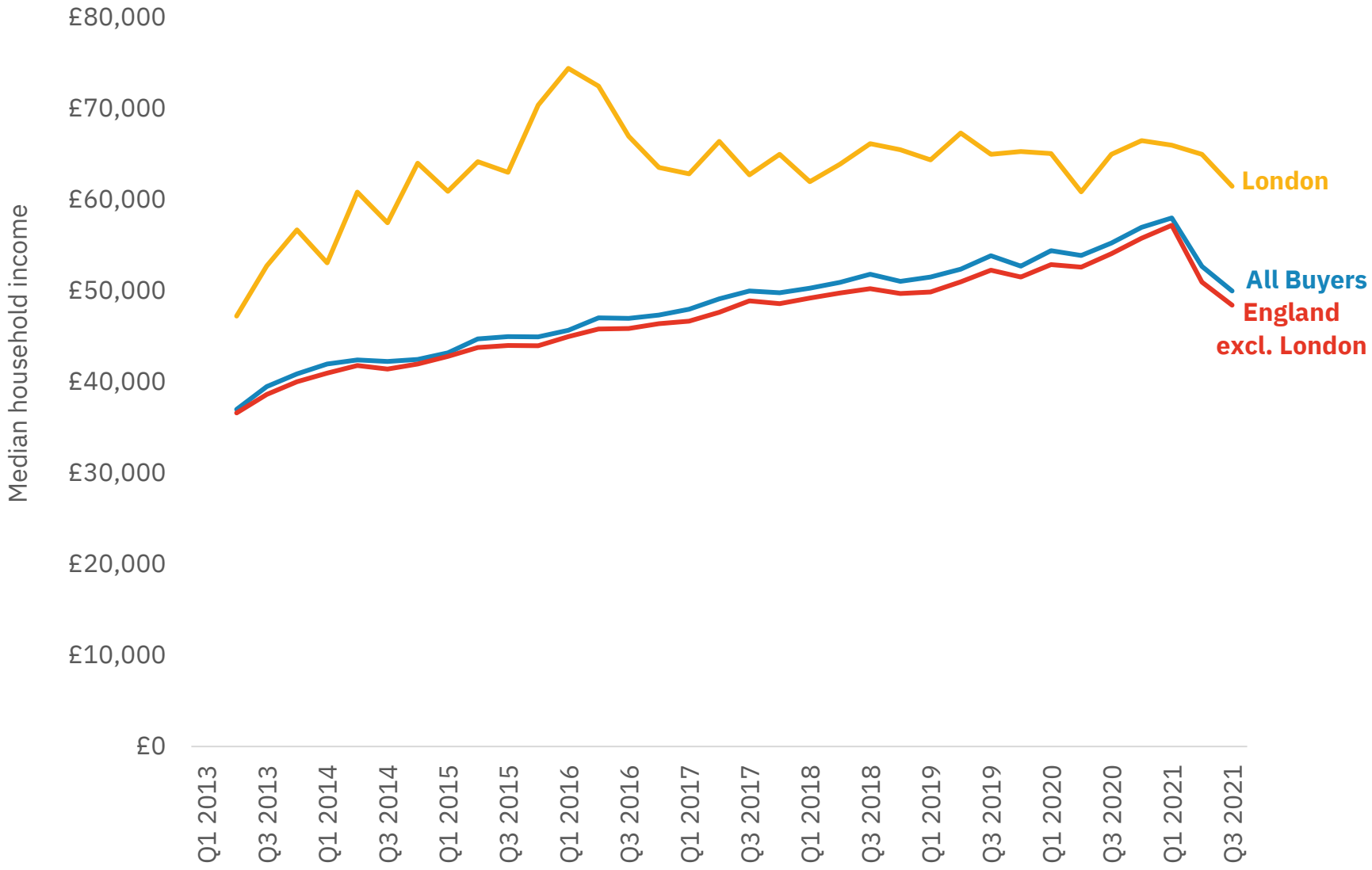
Median Household Income

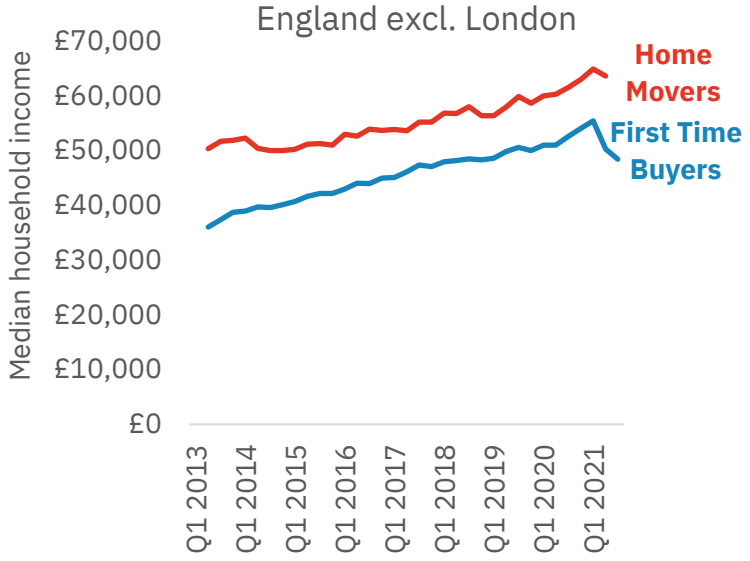
Source: DLUHC



These charts show the median household income of Help to Buy purchasers by broad area opposite and buyer type below.

The median household income of buyers during Q3 2021 was £61,517 in London while across the rest of England it was £48,440.

The average income has fallen under the new scheme even when looking at just first time buyers (chart below).



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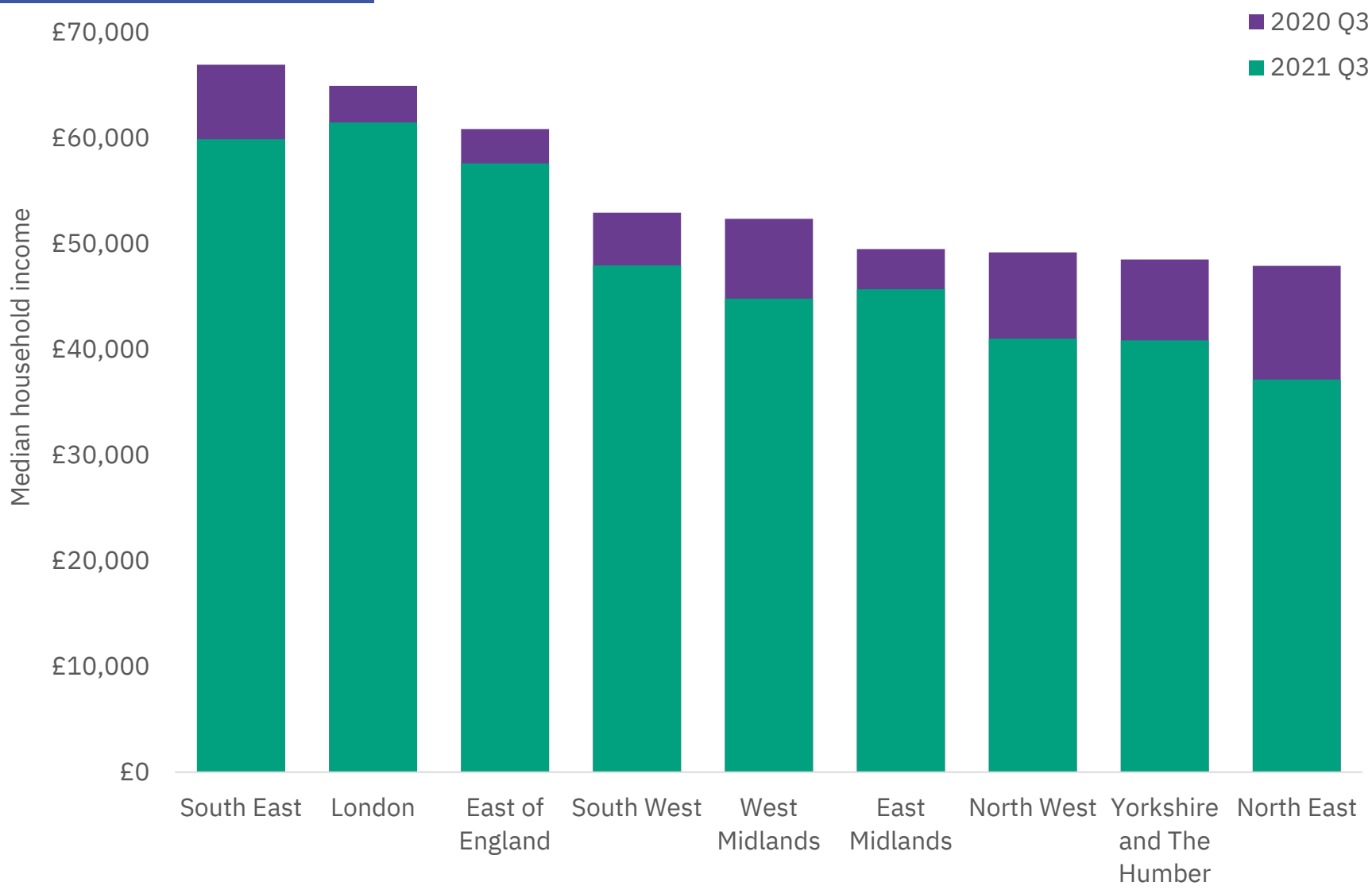
Median Household Income by Region

Source: DLUHC



As the chart opposite shows, median household incomes of those using Help to Buy have fallen since the introduction of the new scheme across all regions.

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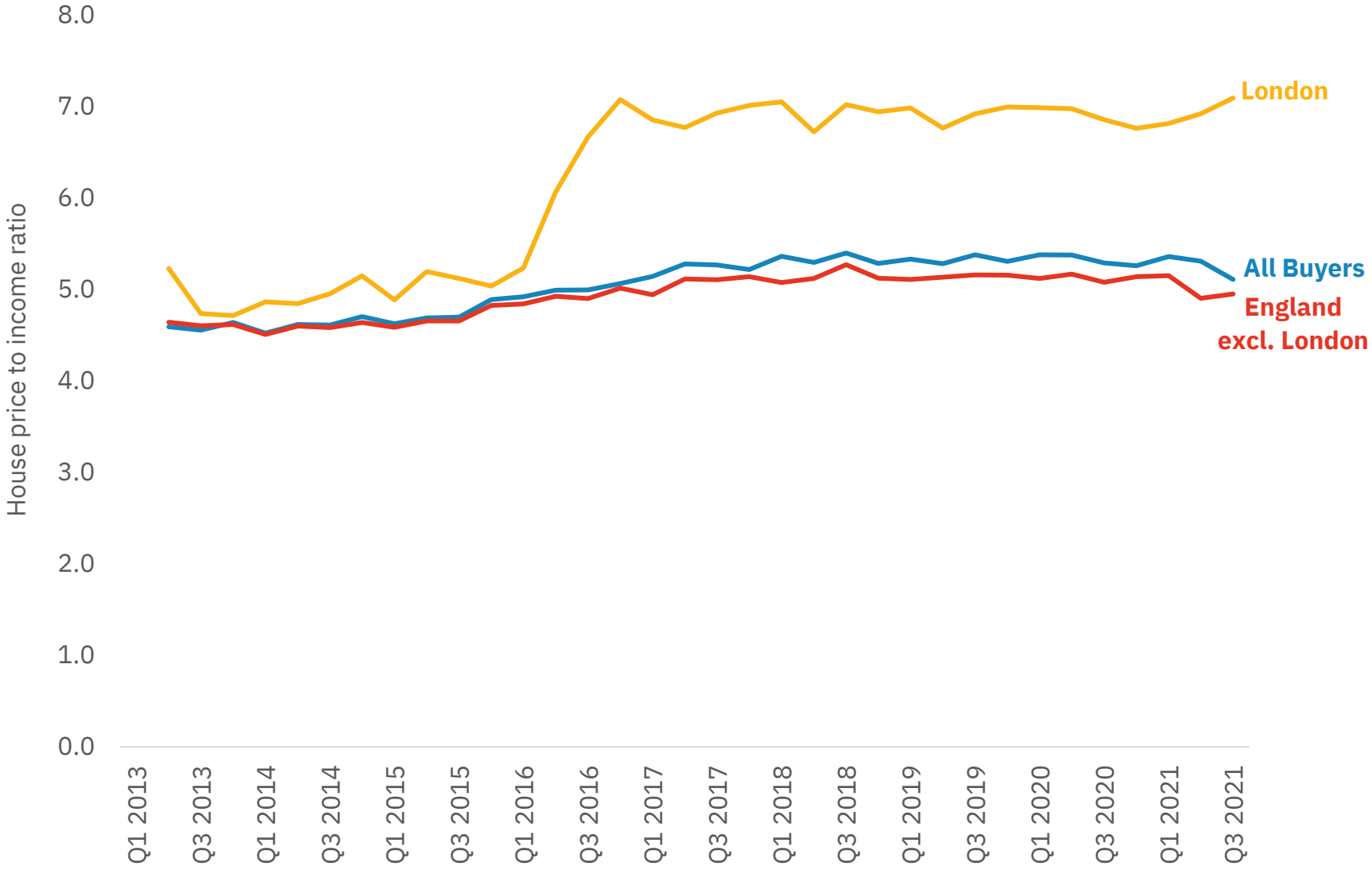
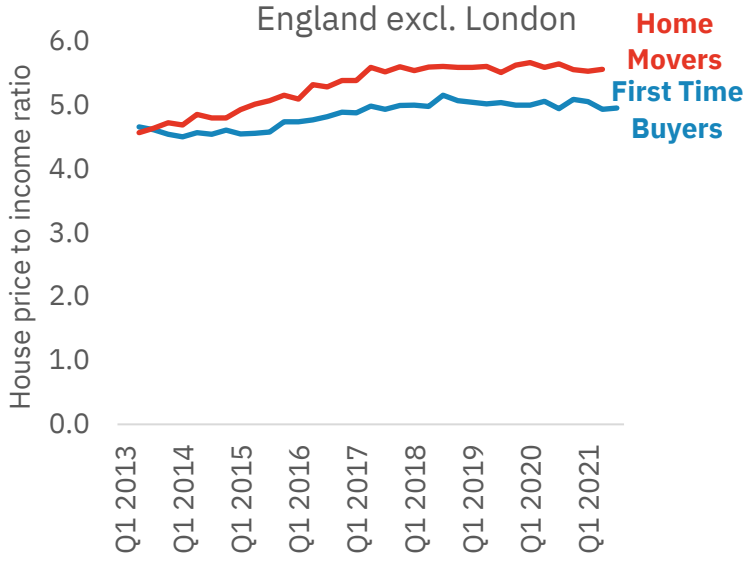
House Price to Income Ratio

Source: DLUHC



Combing the previous data on median property price and median household income, we can construct a house price to income ratio for both areas and buyer types.

Again, the introduction of Help to Buy London is clear with much higher ratios enabled by the larger equity loan. The implied ratio for recent buyers in London was 7.1 during Q3 2021 while across the rest of England it was 5.0.



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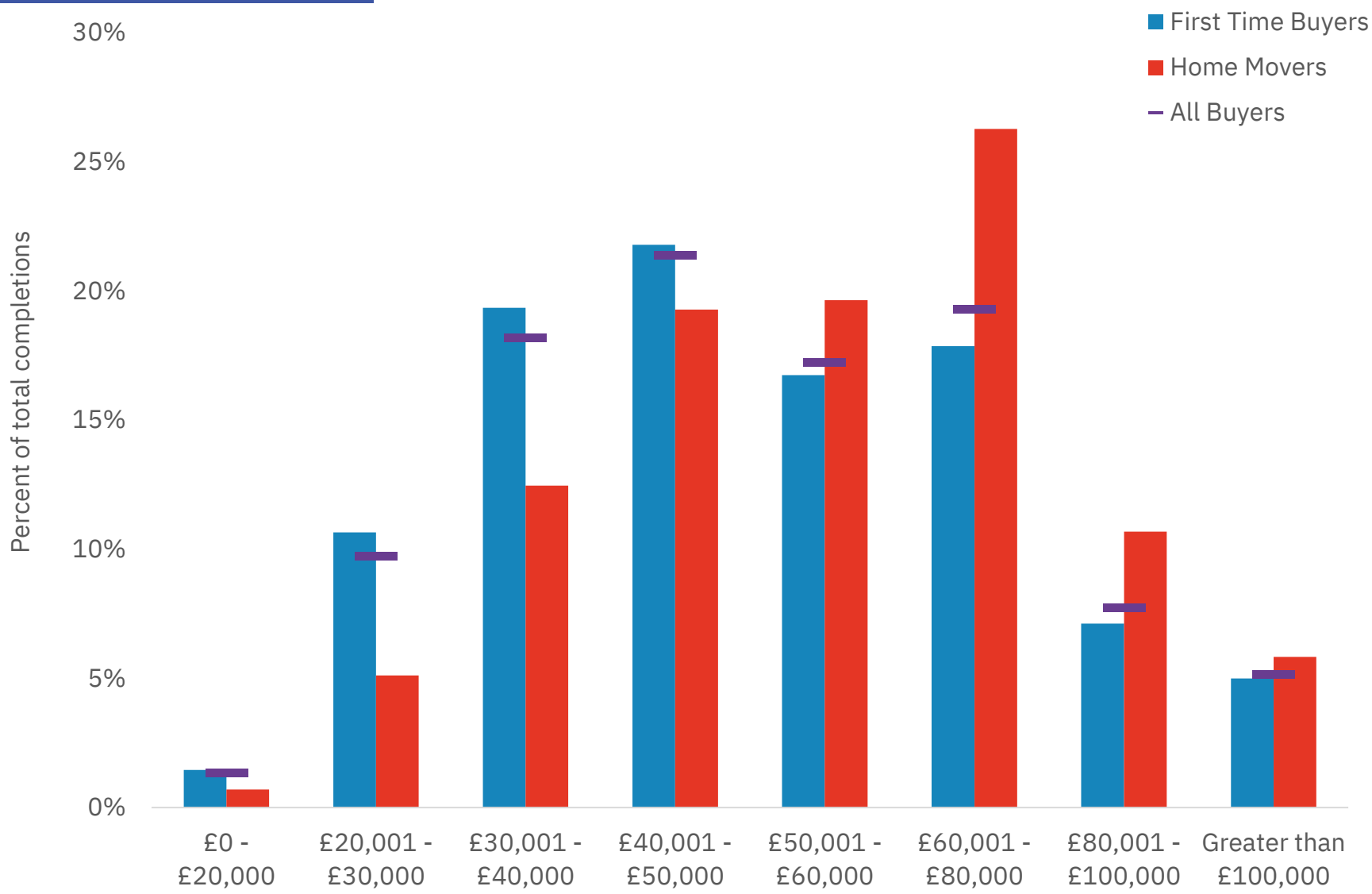
Income Distribution

Source: DLUHC



The chart opposite shows the distribution of household incomes by buyer type since the scheme began.

It shows 30% of first time buyers and 43% of home movers have had incomes of over £60,000 since Help to Buy started in 2013.

Since the scheme began, 5.1% of all buyers have had a household income of over £100,000.

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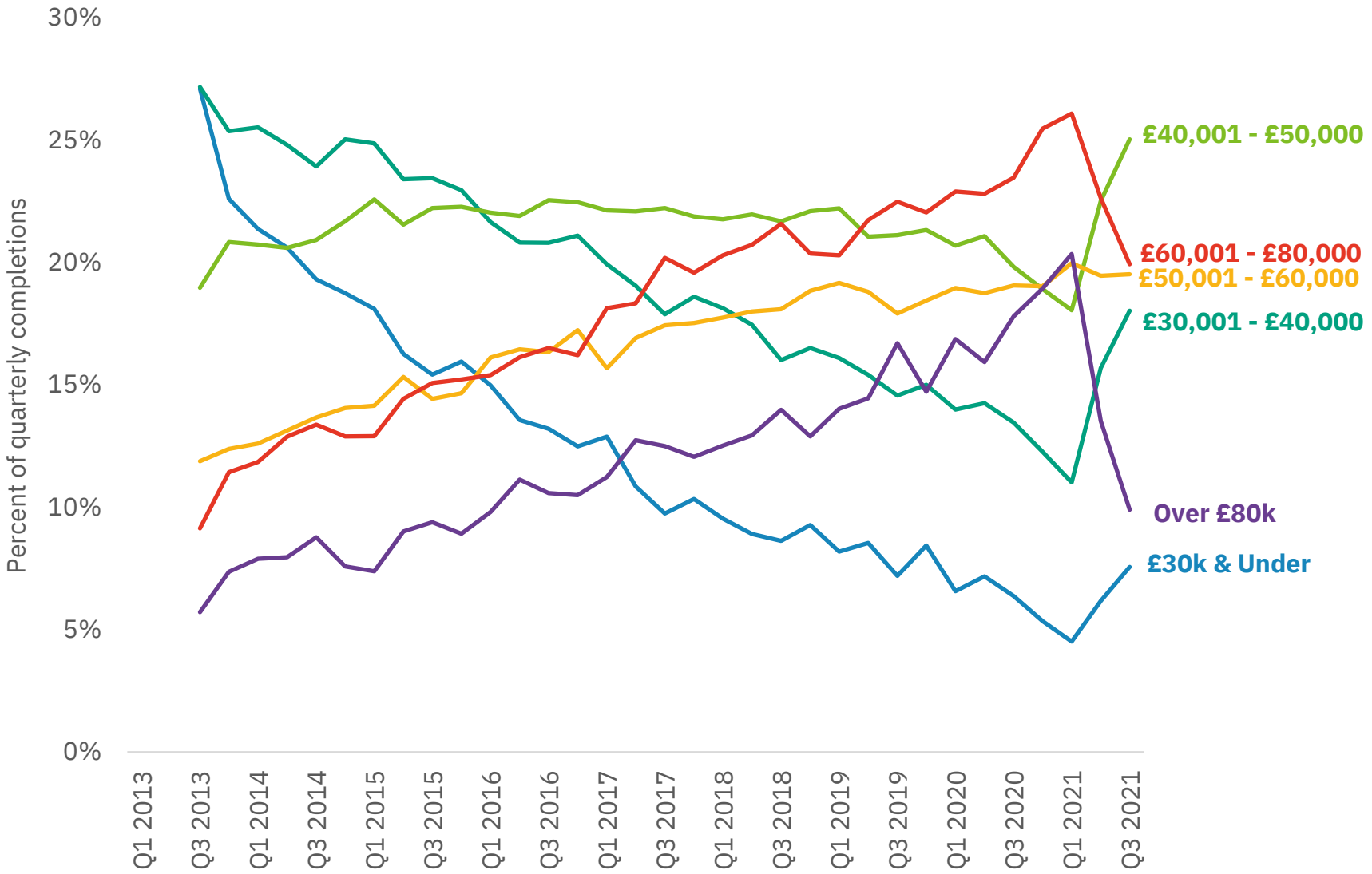
Income Distribution Over Time

Source: DLUHC



This chart shows the distribution in household income over time. It is not inflation adjusted.

It highlights the rise in proportion of buyers with higher incomes over time. However, the change in Help to Buy has led to a fall in the proportion of buyers with higher incomes in recent quarters

	Q3 2013	Q1 2021	Q3 2021
£60k-£80k	9.1%	26.1%	19.9%
Over £80k	5.7%	20.4%	9.9%

Meanwhile, the proportion of buyers with incomes of £30,000 or less fell from 27.1% in Q3 2013 to 4.5% in Q1 2021. It has since increased to 7.6%.

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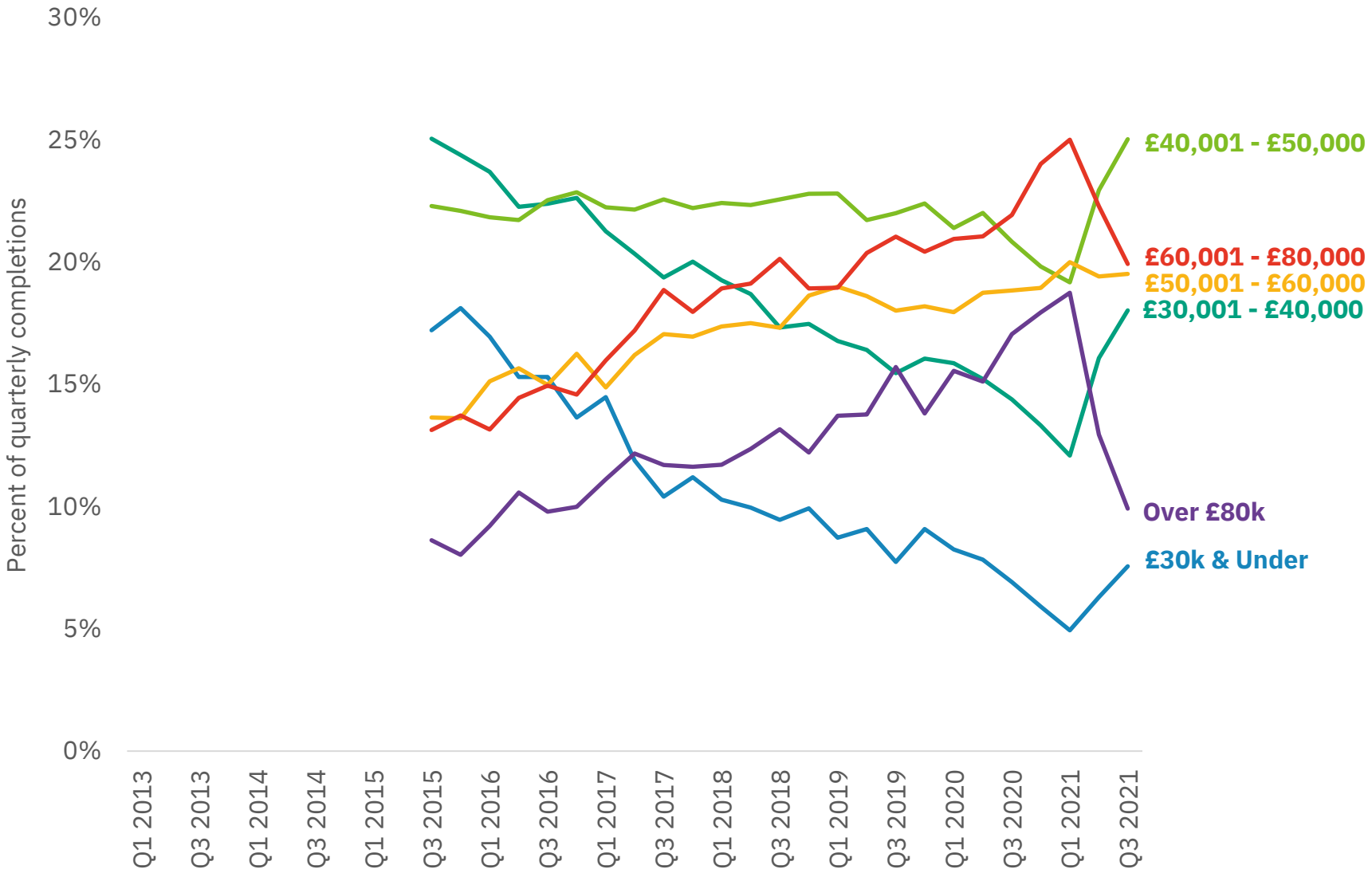
FTB Income Distribution Over Time

Source: DLUHC



The change in Help to Buy purchasers' incomes in recent quarters is not simply due to the restriction of the scheme to just first time buyers.

The chart opposite repeats the previous chart but just for first time buyers. It clearly highlights the fall in the proportion of first time buyers with higher incomes using the scheme in recent quarters.

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Buyers' Financial Position in Q3 2021

Source: DLUHC, ONS

This analysis provides a simple example of the financial position for first time buyers as at Q3 2021.

It is based on actual mean house prices, mean household incomes, mean equity loans, and a 5% deposit for Help to Buy purchasers.

For other first time buyers it is based on actual mean house prices, mean household incomes, and mean mortgages.

The national data shows how a first time buyer with a similar household income can afford a more expensive home under Help to Buy than when buying normally.

The London data highlights how Help to Buy can help a first time buyer with a lower income buy the same priced home as a normal first time buyer with a higher income in the capital.

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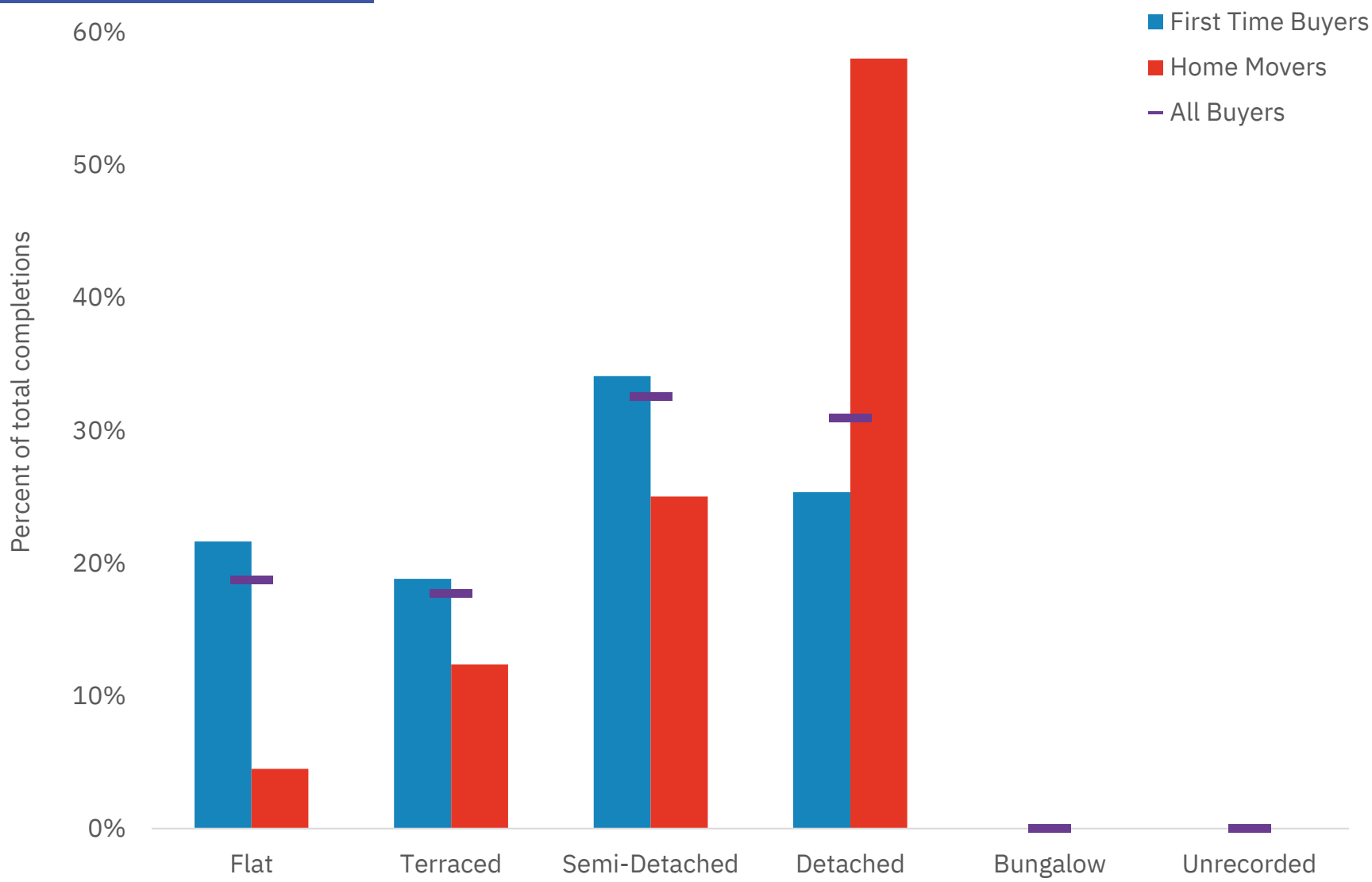
Property Type Distribution

Source: DLUHC



DLUHC statistics also provide data on the type of property bought using Help to Buy.

The data for all completions since the start of the scheme is shown opposite with semi-detached properties the most popular amongst first time buyers and detached properties most popular with home movers.

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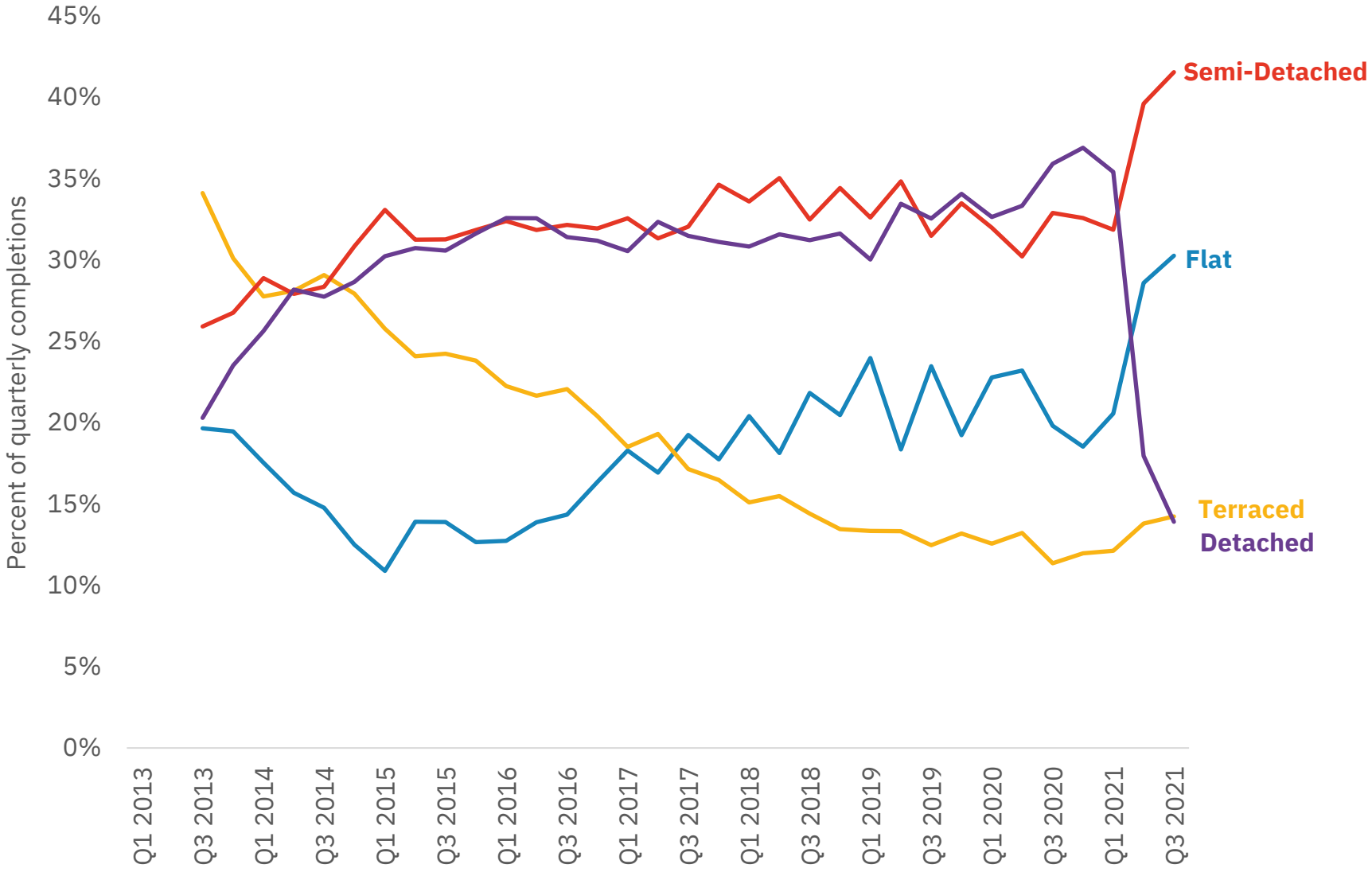
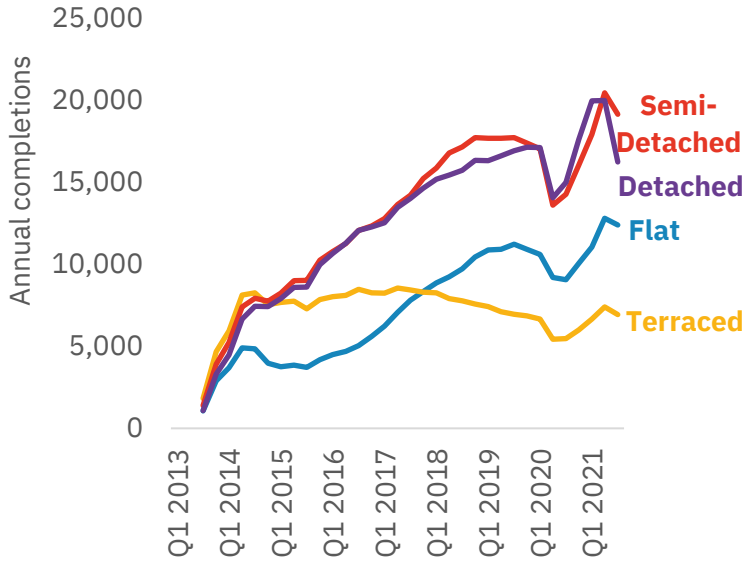
Property Type Distribution Over Time

Source: DLUHC



The change in the percentage share of property types bought over time is shown opposite and highlights the shift away from terraced houses, towards larger semi and detached house. The scheme has several nicknames including “Help to Buy Bigger”. However, recent quarters have seen a decline in the share of detached homes.

The number of annual completions by property type is shown below for comparison.



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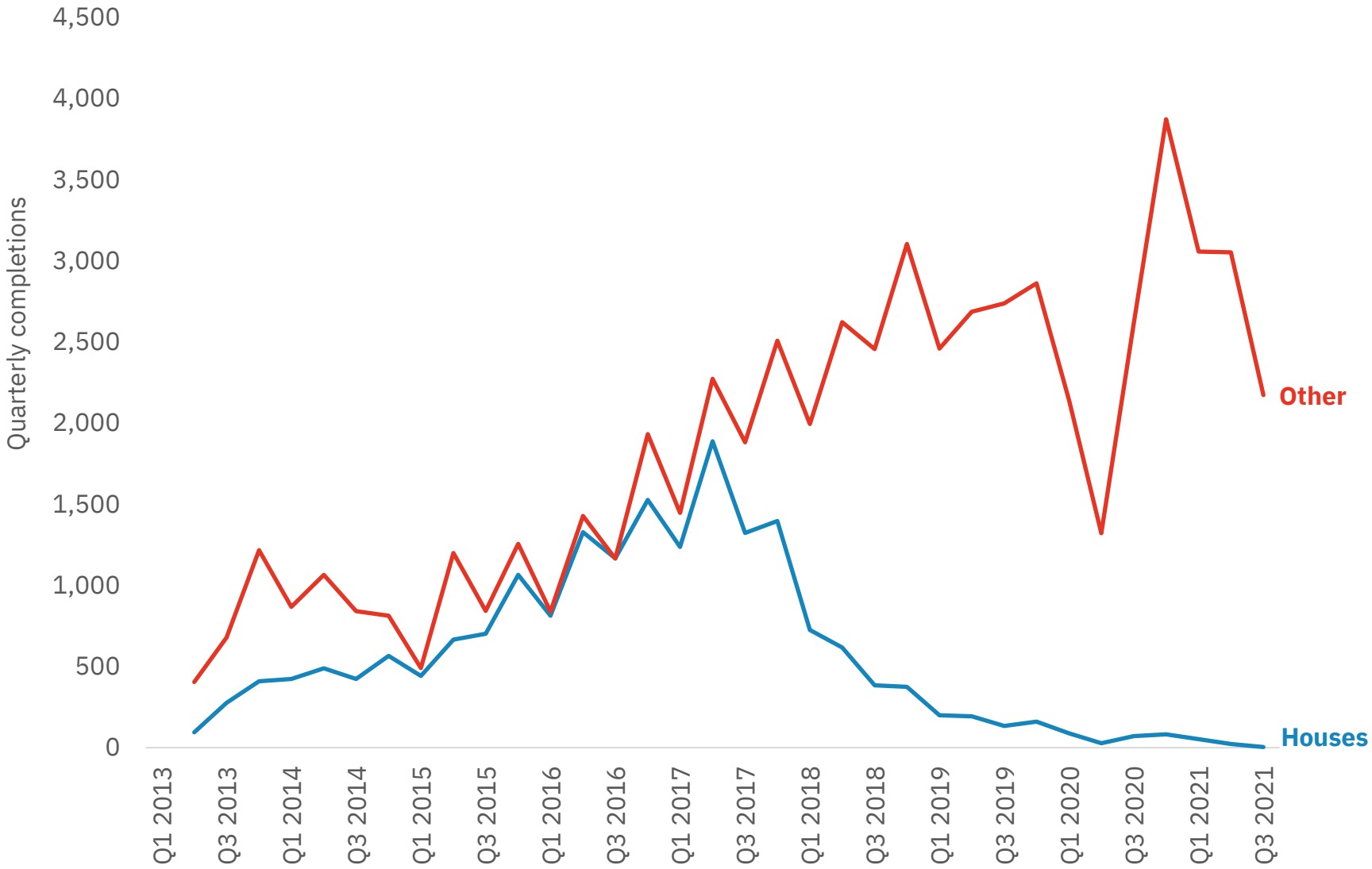
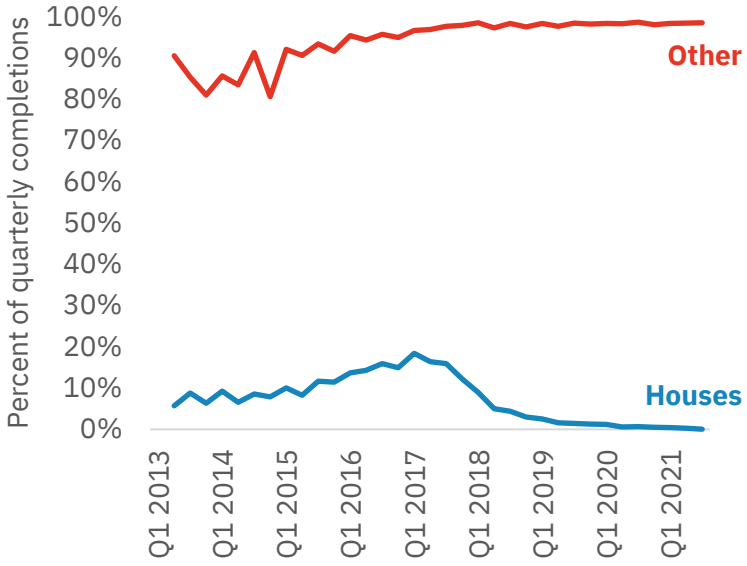
Leasehold Properties

Source: DLUHC



Mirroring the wider new build market, there was an increase in leasehold houses delivered via the scheme, reaching a peak of 18% of house completions in Q1 2017.

This changed when the government's "Fixing our broken housing market" report was published in February 2017. The report recognised the issues faced by leaseholders and promised to do something about it. Completions of leasehold houses have collapsed but 99% of flats are still delivered via this tenure.



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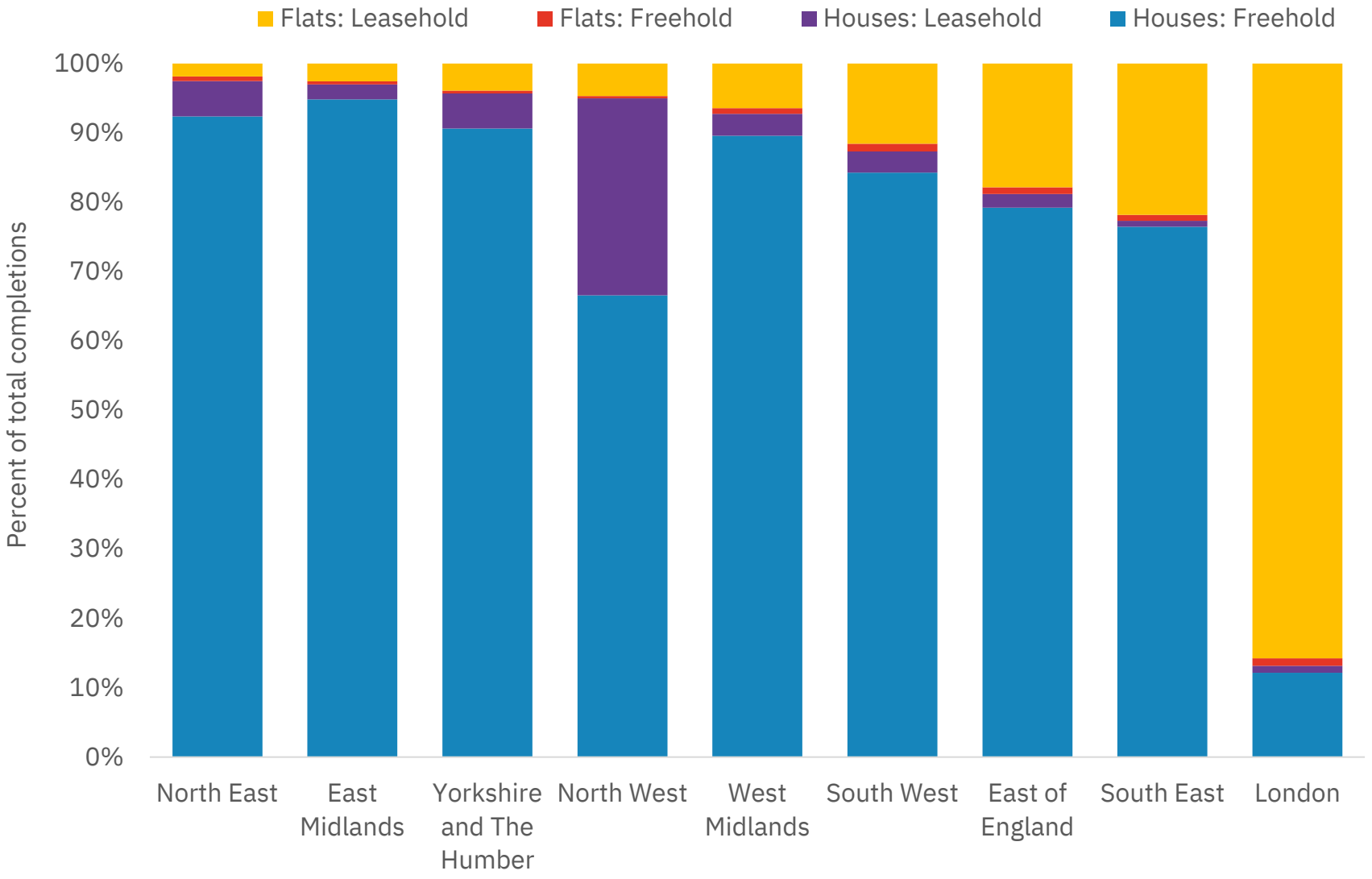
Property Type & Tenure

Source: DLUHC



The chart opposite shows the distribution of total completions in each region by flat/house and leasehold/freehold.

As with the wider new build market, leasehold houses were a much larger proportion of house completions in the North West than any other region.

The North East has seen the highest proportion of houses (97.5%) while London has the lowest (13.2%).

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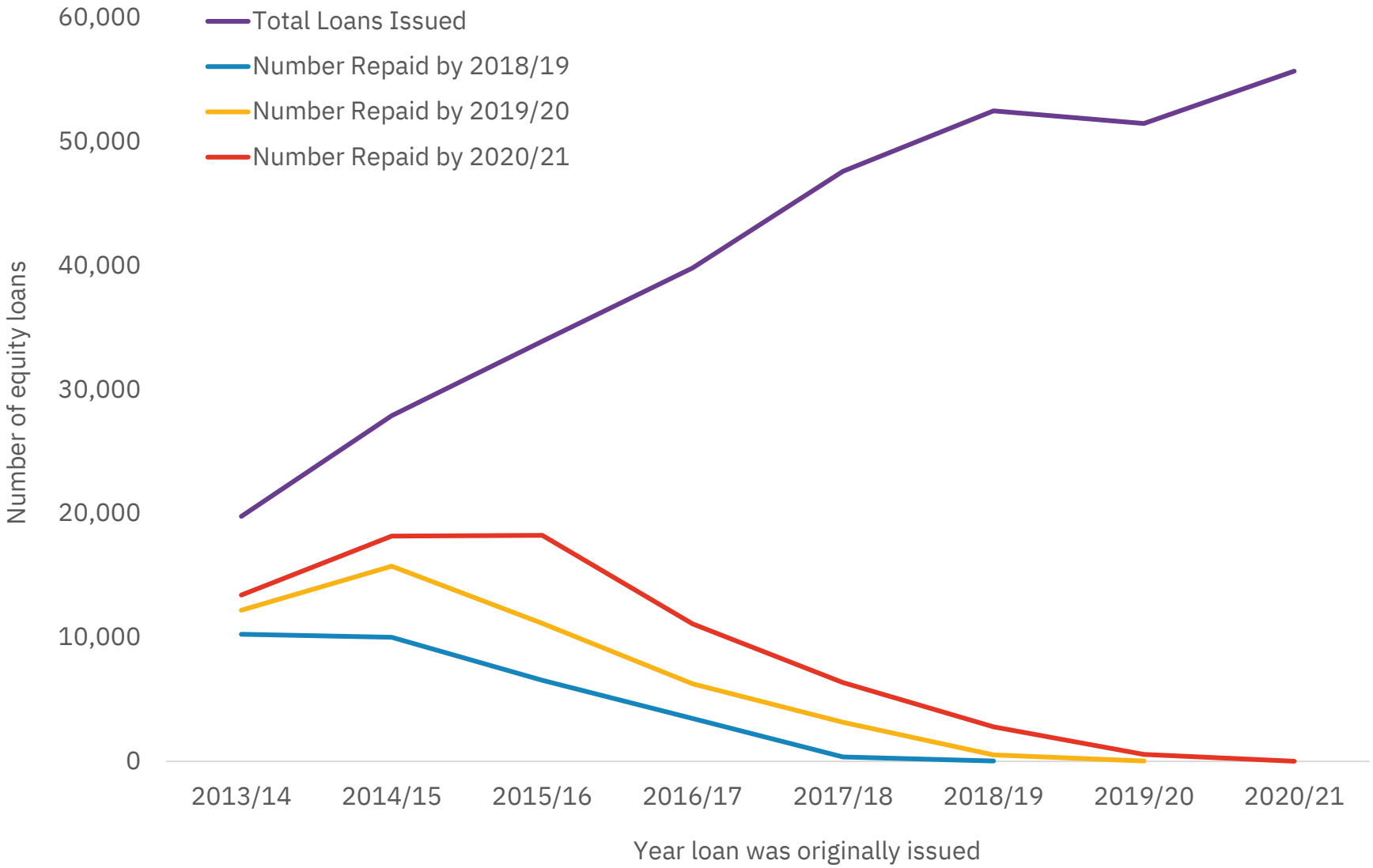
Number of Loans Repaid

Source: Homes England



This chart and following ones are based on data published in the Homes England Annual Report & Financial Statements

The chart opposite shows the total number of equity loans issued in each financial year along with the total number repaid by the end of the 2018/19, 2019/20, and 2020/21 financial years.

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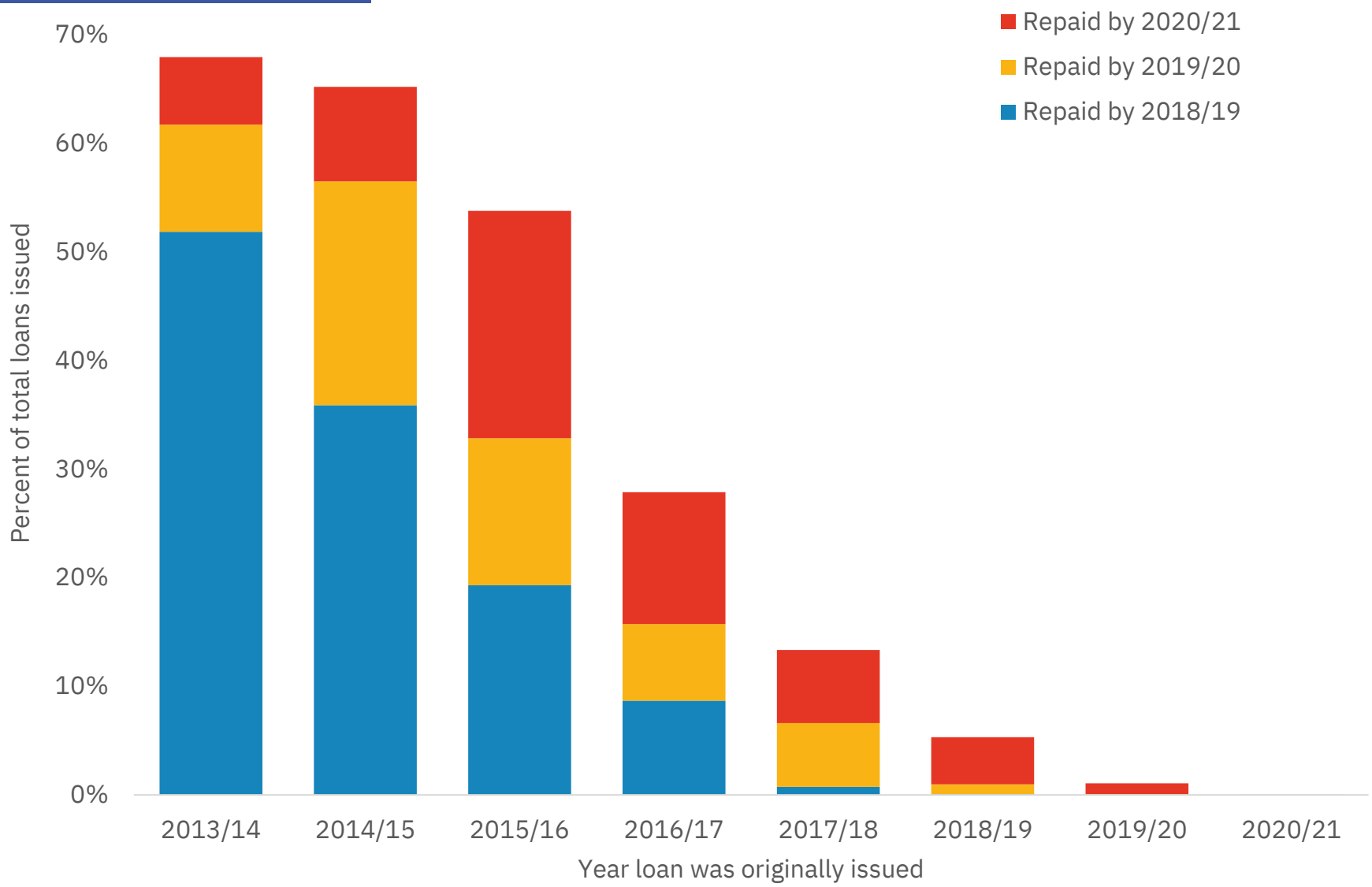
Percent of Loans Repaid

Source: Homes England



This chart repeats the data from the previous slide but shows the repaid loans as a percent of all loans issued in the specific year.

For example, it shows that, by the end of the 2018/19 financial year, 36% of loans issued in 2014/15 had been repaid. This had increased to 56% by the end of the 2019/20 financial year, and 65% by the end of 2020/21.

Unfortunately there is no data that allows us to understand the location or buyer types that have repaid loans.

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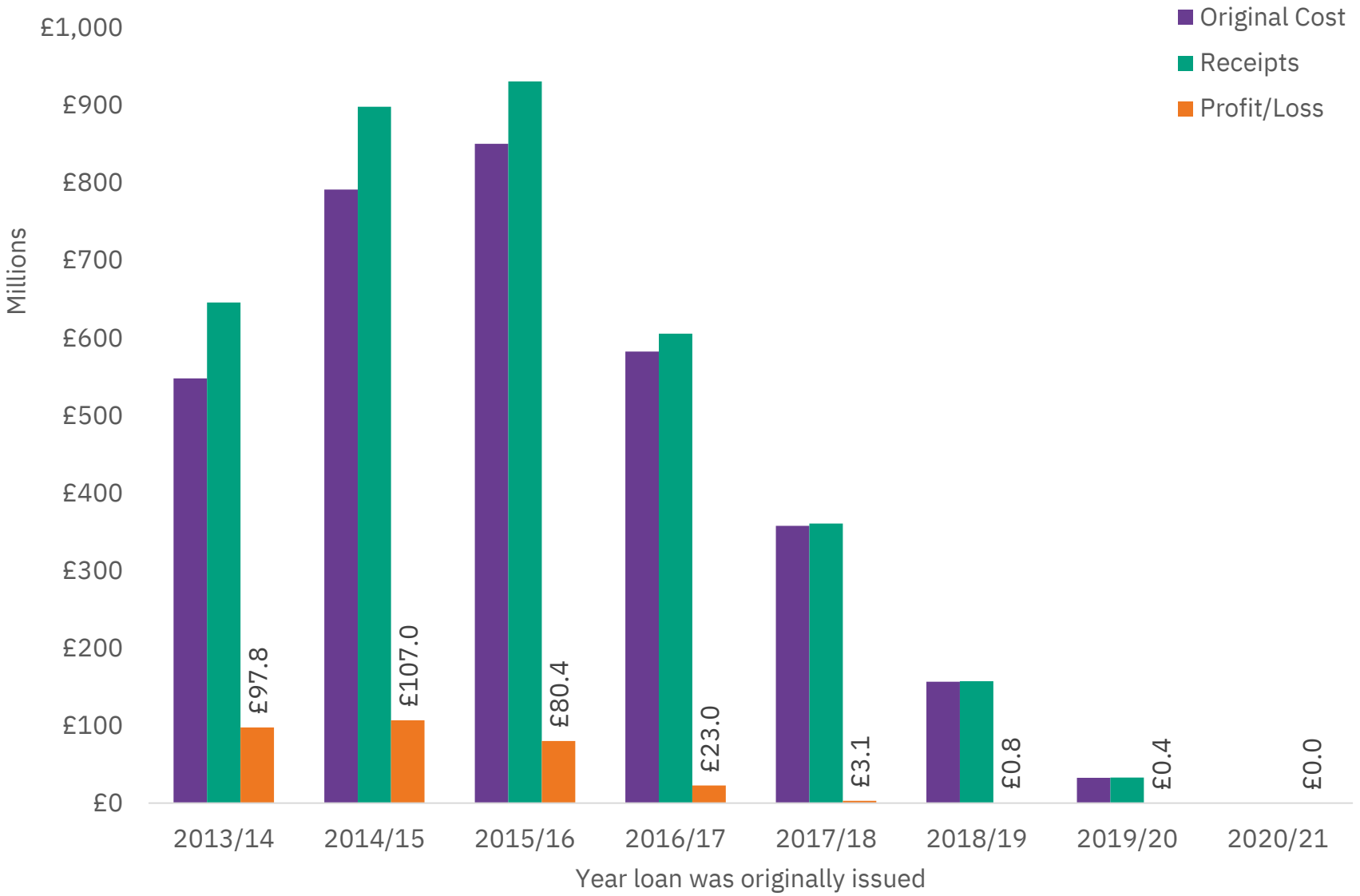
Total Costs & Receipts of Repayments

Source: Homes England – 2020/21



The Homes England annual report also contains data on the total cost of the equity loans since repaid and the receipts from these repaid loans. We can therefore work out the gross profit or loss.

The chart opposite shows the total cost of equity loans repaid by the end of the 2020/21 financial year, the receipts from those repayments and the profit/loss.

As expected, given underlying house price inflation, repayment of loans from all years have delivered a gross profit in 2020/21. However, this has not always been the case as highlighted by the chart on the following slide.

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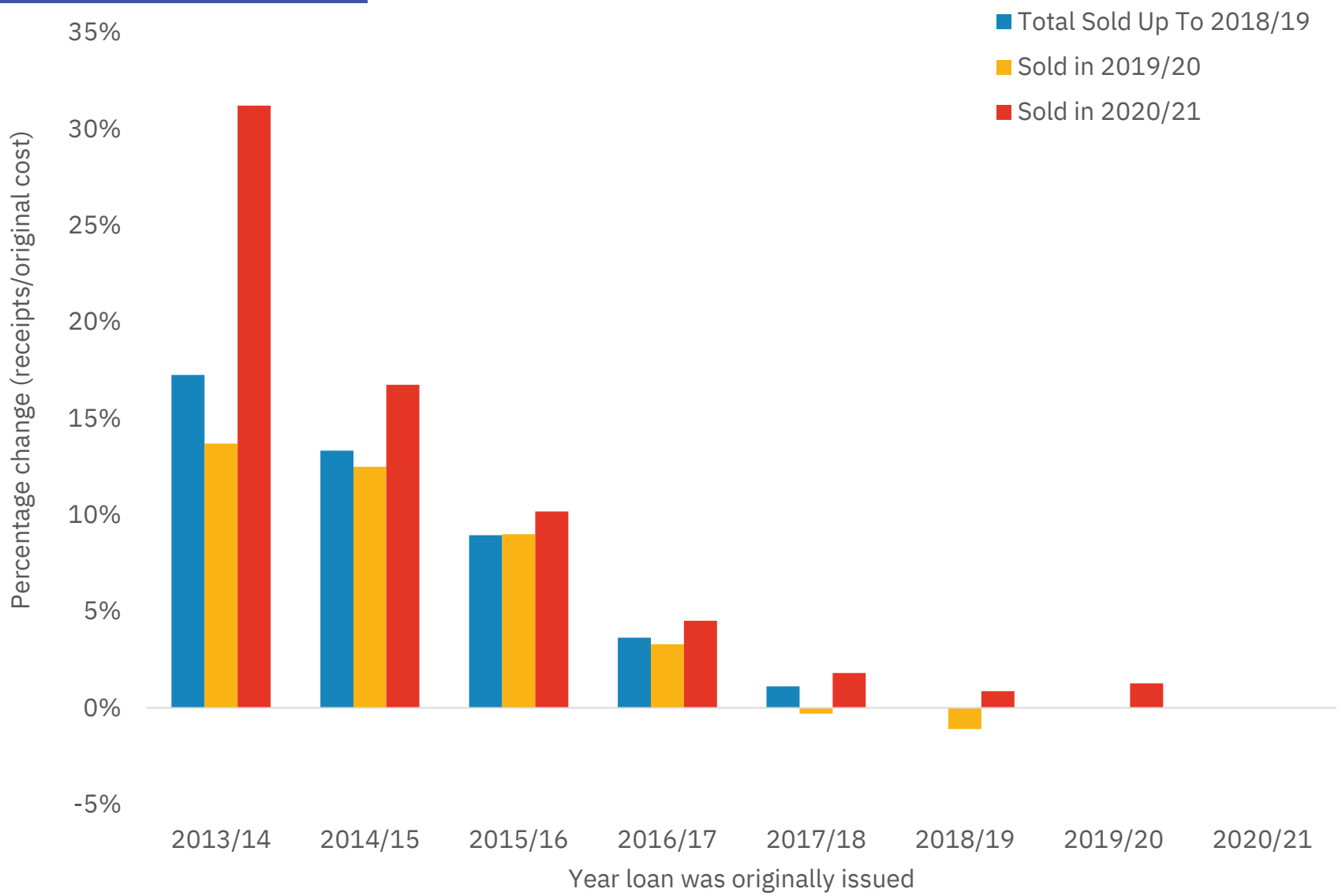
Percentage Return (Receipts/Original Costs)

Source: Homes England



This chart compares the percentage return of all Help to Buy loans by the year they were issued and year they were repaid.

It shows that while most years have seen a profit on repaid loans, the smaller number of loans issued in 2017/18 and 2018/19 but then repaid in 2019/20 had reported a loss. Loans issued for those years but repaid in 2020/21 reported an aggregate profit.

Unfortunately there is no detailed data that would allow us to investigate the type and location of homes that led to a loss for Homes England.

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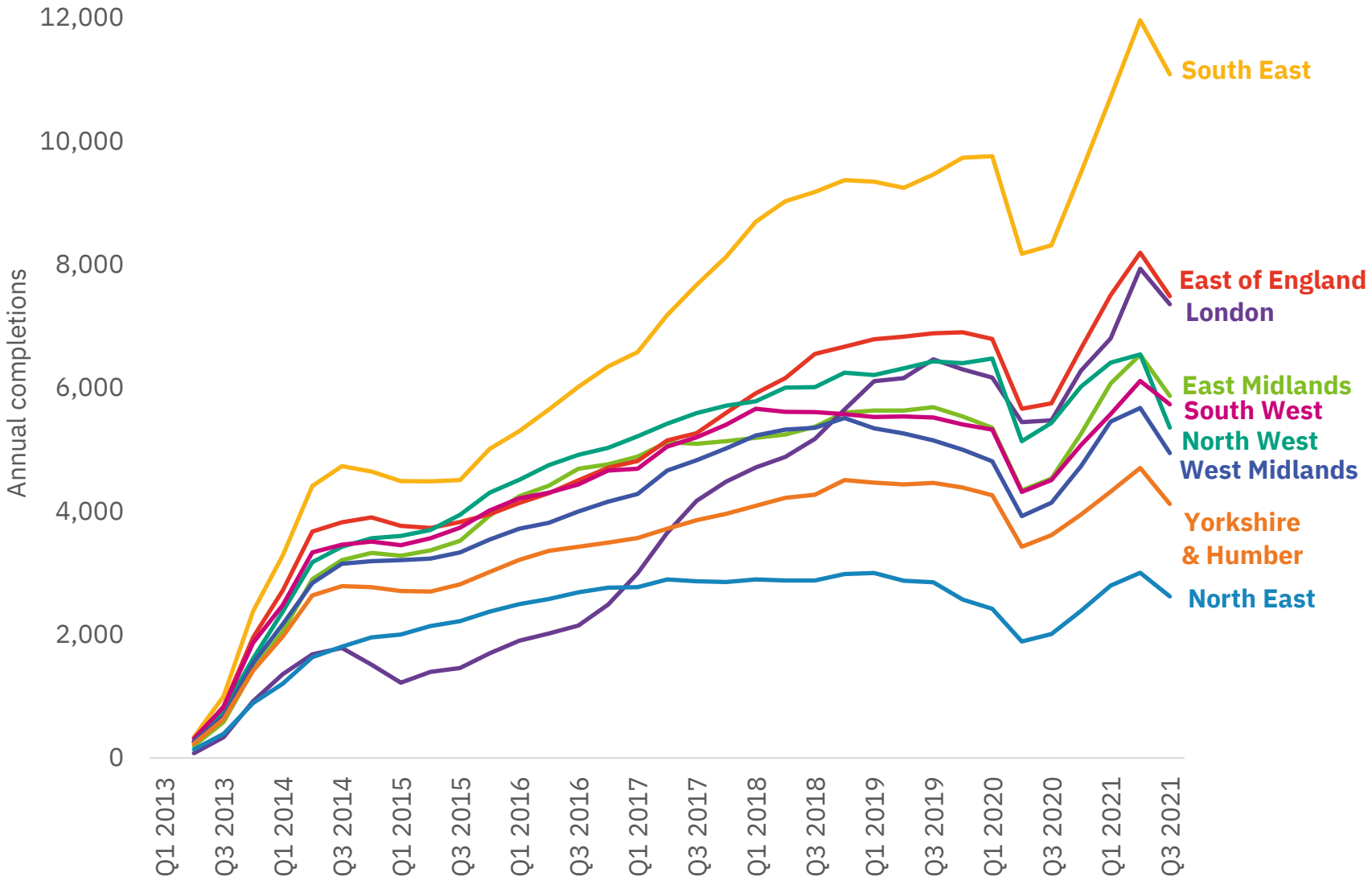
Regional Completions

Source: DLUHC



The chart opposite shows the annual number of completions by region. The table below shows the latest annual total and the total since the start of the scheme.

The two charts on the following slide show annual completions for first time buyers and home movers.

	Last 12m	Total
South East	11,088	61,973
East of England	7,490	44,939
London	7,359	34,377
East Midlands	5,873	38,564
South West	5,735	39,028
North West	5,360	41,895
West Midlands	4,945	35,581
Yorkshire & Humber	4,121	29,974
North East	2,620	20,325

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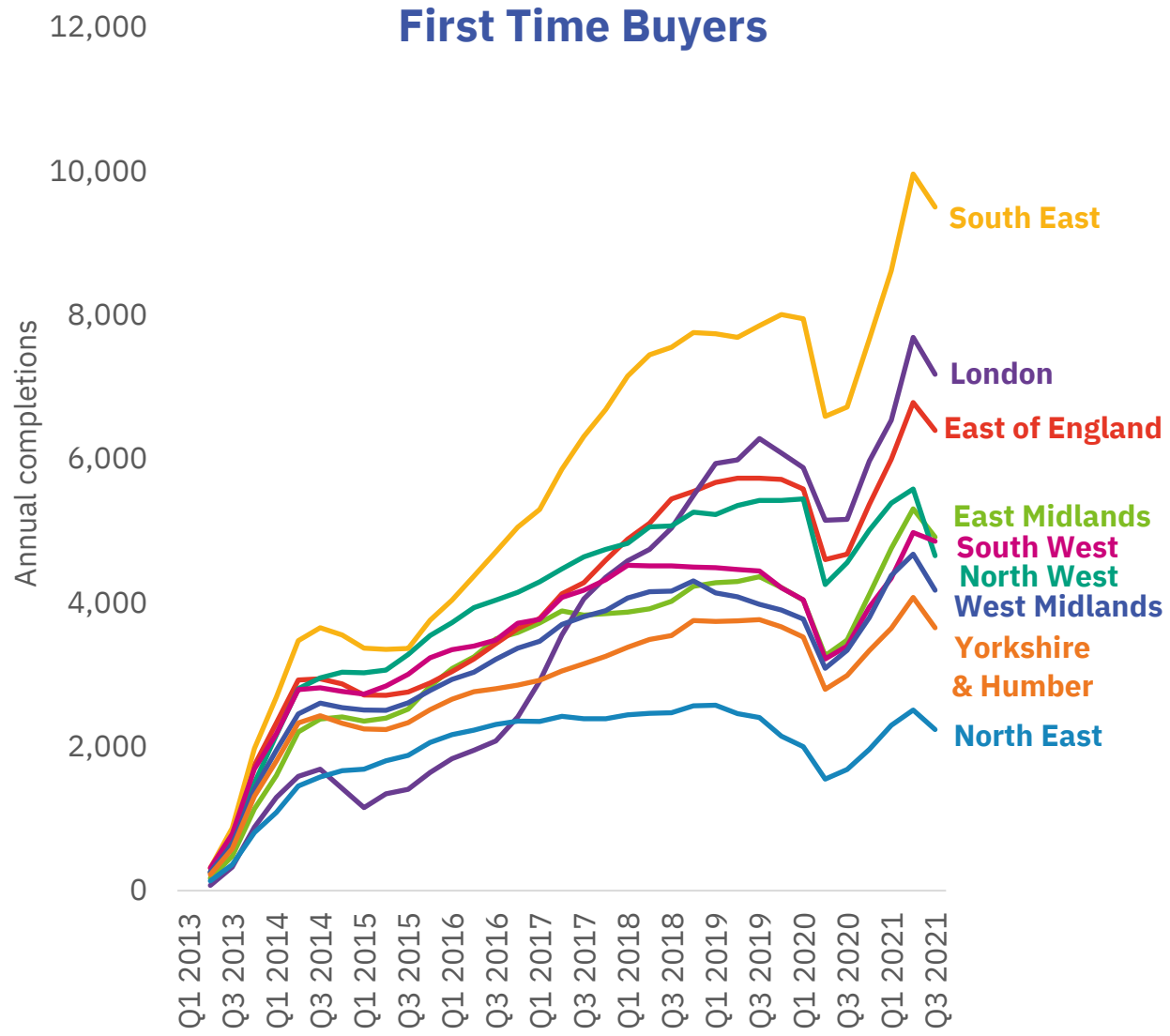
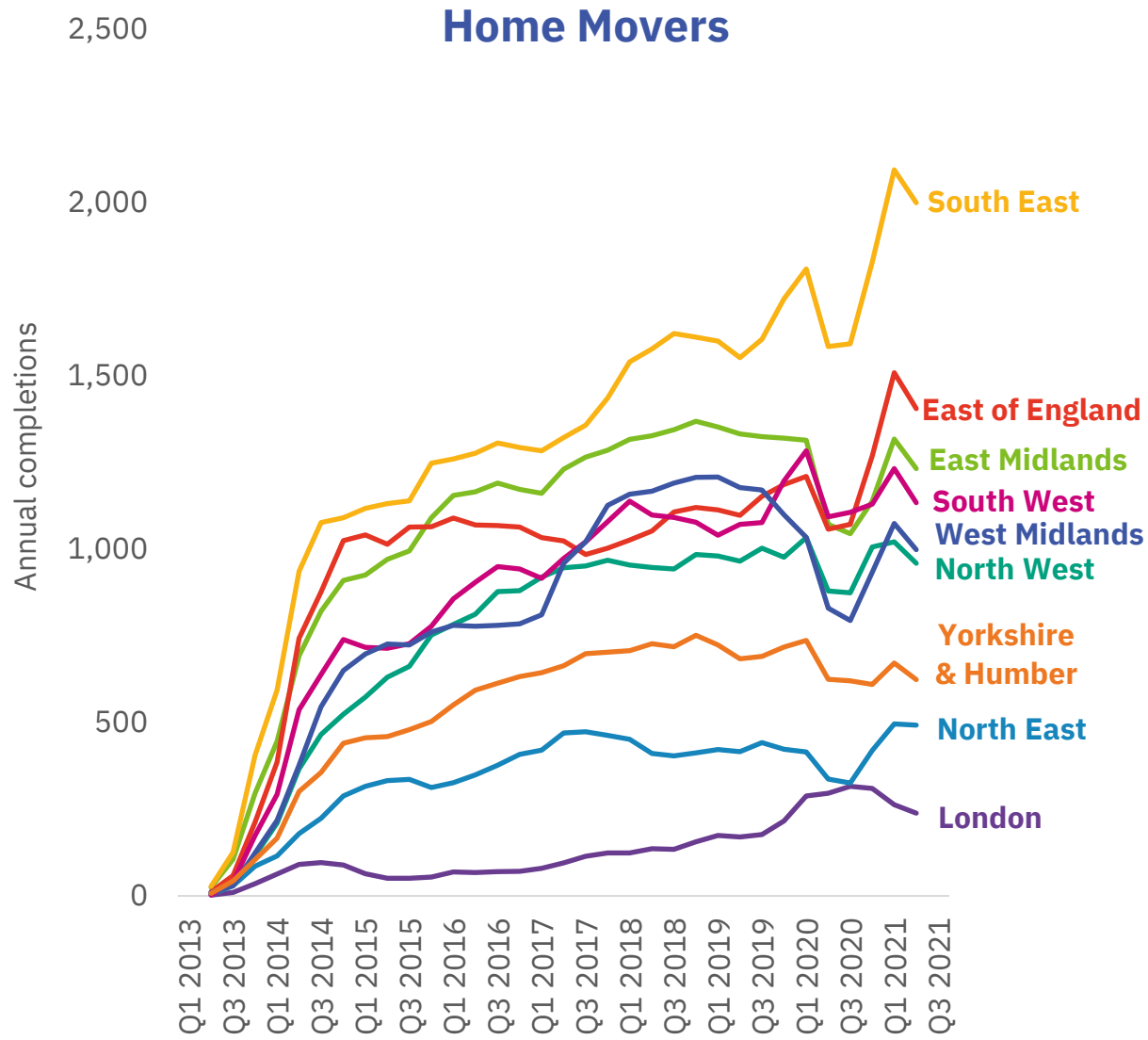
Regional Completions by Buyer Type

Source: DLUHC





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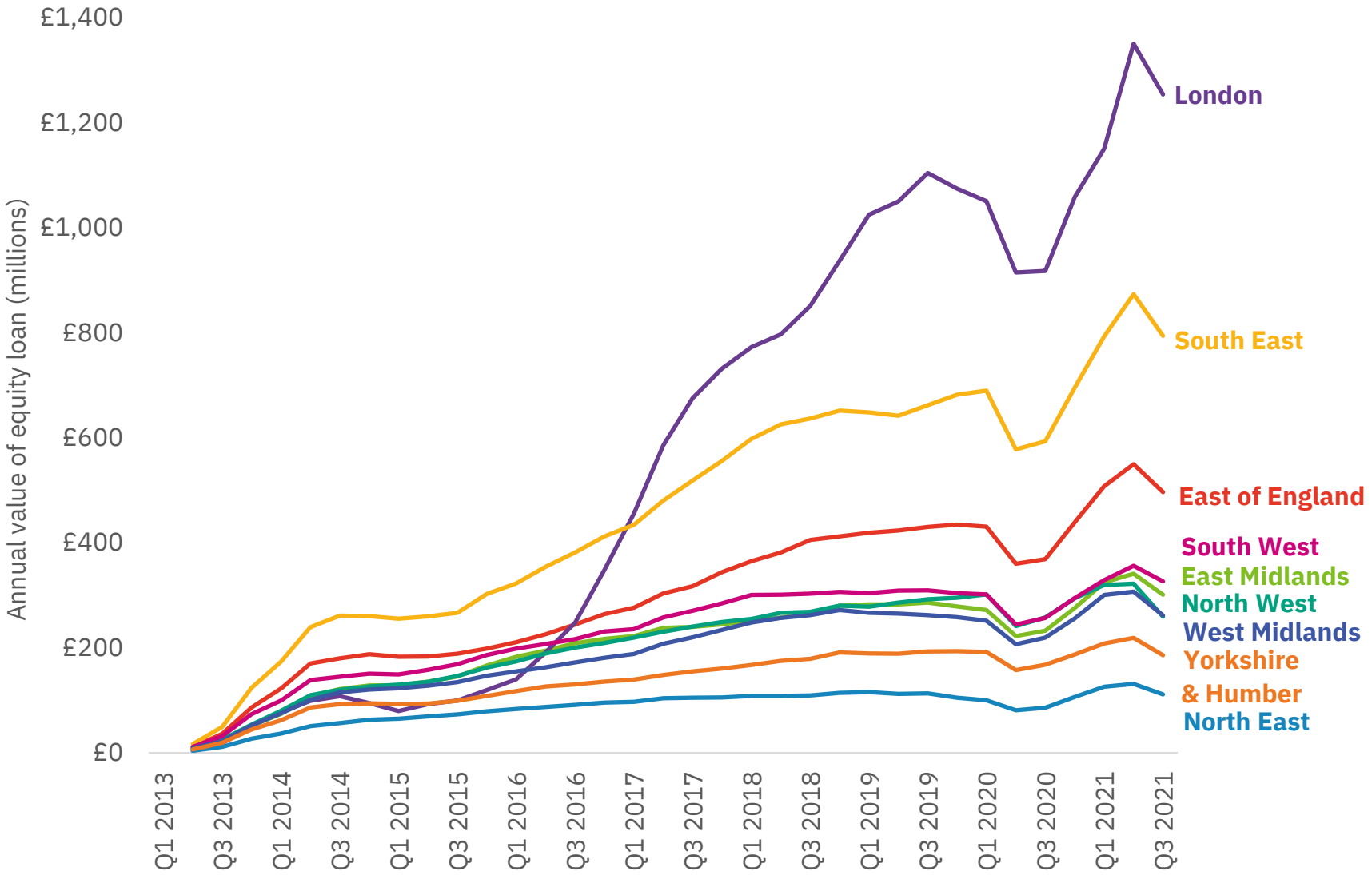
Regional Total Equity Loan

Source: DLUHC



The chart opposite shows the annual total value of equity loans. The table below shows the latest annual total of new equity loans and the total issued since the start of the scheme.

	Last 12m	Total
London	£1,254m	£5,276m
South East	£794m	£4,165m
East of England	£496m	£2,668m
North West	£259m	£1,811m
South West	£327m	£2,029m
East Midlands	£301m	£1,822m
West Midlands	£262m	£1,669m
Yorkshire & Humber	£186m	£1,222m
North East	£111m	£758m

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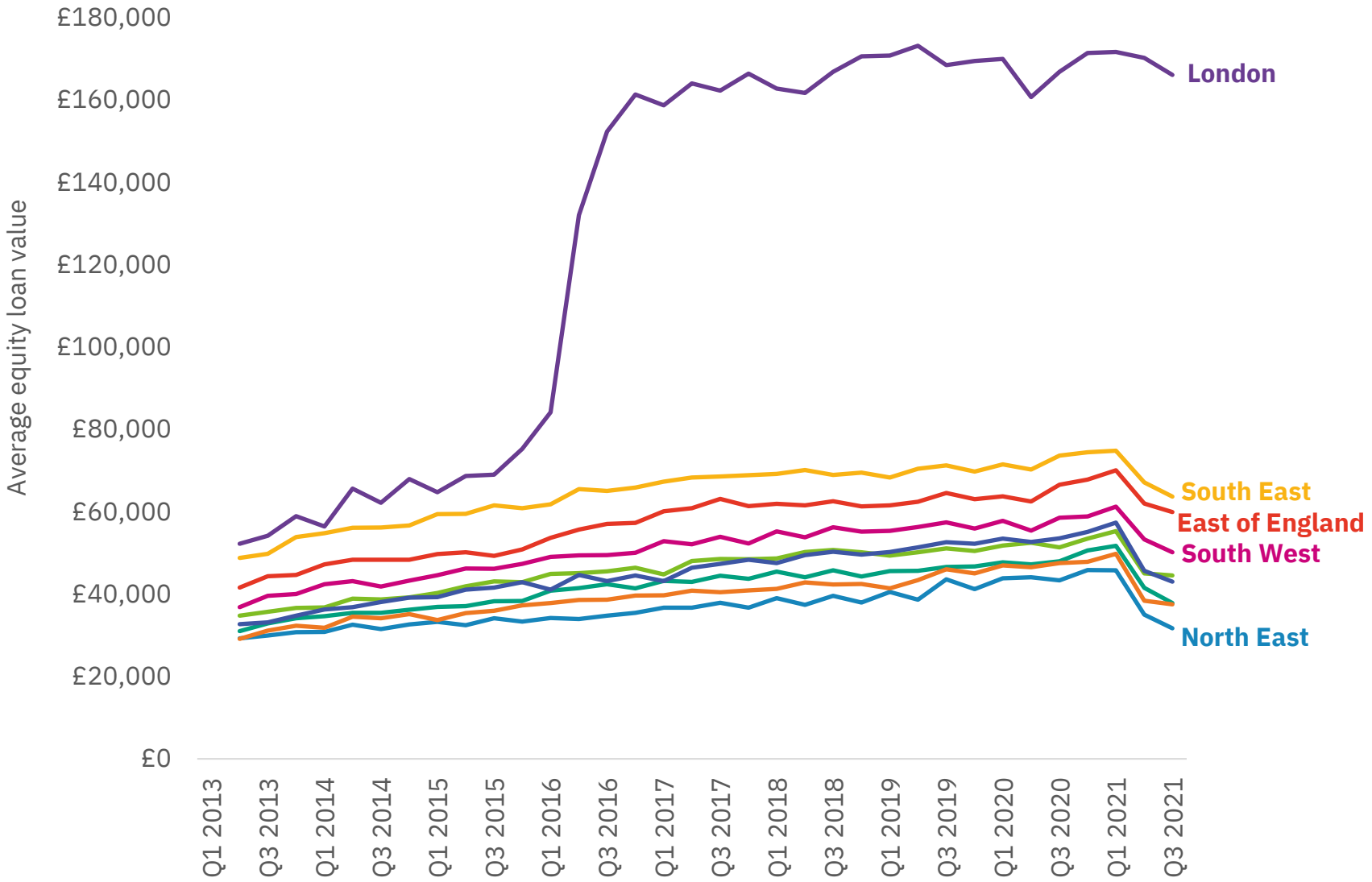
Regional Average Equity Loan

Source: DLUHC



The chart opposite shows the mean equity loan per completion by region and the table below shows the average for each region in Q3 2021.

	Latest
London	£166,207
South East	£63,711
East of England	£59,954
South West	£50,228
West Midlands	£43,047
East Midlands	£44,549
North West	£37,860
Yorkshire & Humber	£37,521
North East	£31,704

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References & Further Reading

- DLUHC - Help to Buy Statistics
- NAO - Help to Buy: Equity Loan scheme – progress review June 2019
- Homes England – Annual Report & Financial Statements 2020/21
- MHCLG - Evaluation of the Help to Buy Equity Loan Scheme 2017
- DCLG - Evaluation of the Help to Buy Equity Loan Scheme 2016
- House of Commons Committee of Public Accounts - Help to Buy: Equity loan scheme

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